

JPRS-CEA-84-027

13 April 1984

# China Report

ECONOMIC AFFAIRS



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13 April 1984

# CHINA REPORT

## ECONOMIC AFFAIRS

### CONTENTS

#### PEOPLE'S REPUBLIC OF CHINA

##### NATIONAL POLICY AND ISSUES

- PRC Journal on Land Use, Rent, Price Systems  
(Zhang Chunyin, Kong Min; JINGJI YANJIU, No 2, 20 Feb 84) 1

- Material Gains, Pursuit of Money Discussed  
(Jin Shi; JINGJI YANJIU, No 2, 20 Feb 84) ..... 11

##### ECONOMIC MANAGEMENT

- JINGJI GUANLI on Economic Balance Within Regions  
(Wang Zukang; JINGJI GUANLI, No 2, 5 Feb 84) ..... 24

- Henan Enterprises Reduce Deficits in 1983  
(Yang Xianming; CAIWU YU KUAIJI, No 12, 20 Dec 83) ..... 32

- Technical Transformation of Light Industry Discussed  
(Lu Zhifen; JINGJI WENTI, No 12, 25 Dec 83) ..... 38

- Obstacles to Technological Improvement Reviewed  
(Liu Rongcang; JINGJI WENTI, No 12, 25 Dec 83) ..... 44

- JINGJI YANJIU on Sale-Capital Rate-Based Loans  
(Zhu Yukun; JINGJI YANJIU, No 2, 20 Feb 84) ..... 48

##### FINANCE AND BANKING

- Tax System Reform, Enterprise Improvement Discussed  
(Du Pingqin; JINGJI GUANLI, No 1, 5 Jan 84) ..... 54

- RENMIN RIBAO on Reform of Taxation System  
(Zhan Wu, et al.; RENMIN RIBAO, 14 Mar 84) ..... 60

## MINERAL RESOURCES

### Briefs

Shanxi New Limestone Mine	68
---------------------------	----

## INDUSTRY

Guangdong Electronics Industry Develops Rapidly (Wang Dekuan; NANFANG RIBAO, 31 Jan 84) .....	69
--	----

Guangdong Completes 20 Large Projects in 1983 (Cai Changjin, Zhou Shude; NANFANG RIBAO, 1 Feb 84) .....	70
--	----

## CONSTRUCTION

Henan Measures To Complete Key State Projects (Henan Provincial Service, 20 Mar 84) .....	72
--	----

### Briefs

High-Rise Buildings Construction	73
----------------------------------	----

## DOMESTIC TRADE

### Briefs

Shanxi Individual-Run Shops	74
Liaoning Commercial Service Network	74

## FOREIGN TRADE

PRC Trade Volume With West Europe Increases (XINHUA Domestic Service, 15 Mar 84) .....	75
---	----

Use of Foreign Funds for Economic Development Explained (BAN YUE TAN, No 20, 25 Oct 83) .....	76
--	----

NPC Reports on Overseas Chinese Donations (Beijing in Mandarin to Southeast Asia and South Pacific, 20 Mar 84) .....	78
--	----

### Briefs

Guangdong Imports Advanced Technology	80
Jiangsu Foreign Economic, Trade Society	80
Deng Xiaoping Inscription Responded To	80
Shandong Trade Talks	81
Importing European Technology	81

## LABOR AND WAGES

### Briefs

Liaoning Urban Employment	82
---------------------------	----



GENERAL

JINGJI GUANLI on Collective Enterprises, Economy (Chen Gu; JINGJI GUANLI, No 2, 5 Feb 84) .....	83
--	----

TAIWAN

Taiwan Sees AT-3 Jet Competing in World Market (CHINA POST, 15 Mar 84) .....	90
---	----

Briefs New Biotechnology Research Center	92
---	----

## NATIONAL POLICY AND ISSUES

### PRC JOURNAL ON LAND USE, RENT, PRICE SYSTEMS

HK280830 Beijing JINGJI YANJIU [ECONOMIC AFFAIRS] in Chinese No 2, 20 Feb 84  
pp 37-42

[Article by Zhang Chunyin [1728 4783 7299] of the Economic Research Center of the Chinese Academy of Social Sciences and Kong Min [1313 2404] of the Economic Research Center at Nankai University: "Questions Relating to Land Prices and Land Payment in the Socialist Economy"]

[Text] The questions of land price and payment for land use are important questions facing us in our present economic reforms. Does land price exist or not exist within the socialist economy? Should work units using land pay for the use of land, in other words, regularly remit a land use fee to the land owner? This is one of the major aspects [of] production relations which socialist political economists must examine. It is of great theoretical and practical significance.

#### I. The History and Present State of Land Price and Paid Use of Land

Before liberation, China was a semi-colonial and semi-feudal society and land was privately owned. Land was a kind of commodity with a value. In those times land price was divided into estimated price and buying and selling price, the former being a tax price and the latter being a business price, and both differed in amount. If we use Tianjin land prices as an example, then the war of resistance against Japan had just begun, the exhibition area in the flourishing British and French concession areas in Tianjin saw buying and selling prices three times as high as the estimated prices. Because the Chinese areas of Tianjin were not as safe as the concession areas, the buying and selling price for land in the Chinese areas was lower than the estimated price. Like Tianjin, other areas and regions showed similar large discrepancies in prices. For example, the exhibition area had an estimated price of more than 20,000 yuan per mu, while Balitai, (near Nankai University) had an estimated price of between 500 and 600 yuan per mu and thus there was a 14-fold difference between the estimated prices of these two areas.

During the early time of liberation, when rural land was returned to individual ownership, land could be bought and sold. Urban real estate was also under individual ownership and it too could be sold. Land transactions in urban and rural areas at that time usually followed preliberation price levels. After 1952, it was no longer legal to freely buy or sell land. Urban land prices were maintained as before and prices were arranged in grades, depending on the

extent of prosperity and transportation conditions (Tianjin was grade 29). After this, several readjustments were made to the scale of land prices, but this price was not a business price; it was only for the purpose of assessing taxes and has continued to be used to this day.

In 1953 the government Administration Council announced "Plans for State Construction and Requisition of Land" which detailed that compensation would be granted in the requisition of rural land and also stipulated the principles and standards for requisition. In January 1958 when the State Council revised the "Plans for State Construction and Requisition of Land," it stipulated that state requisition of land should adjust and redistribute state-owned or publicly-owned land as much as possible, and in cases where this was not possible or where, after such adjustments, the livelihood and production of the person whose land had been requisitioned was affected, the work unit using the land should pay a suitable compensation fee. Land compensation fees were jointly determined by local government departments, the work unit using the land, and the owner of the requisitioned land. Most land took as its standard total production value over the last 2 to 4 years. Later on, as a result of changes in the situation, in particular the 10 years of social chaos, this method came under attack and exorbitant prices were asked when land was requisitioned and the compensation fee for every mu of requisitioned land increased from several hundred yuan to several thousand yuan. Later on, it reached several tens of thousands of yuan and even one or two hundred thousand yuan. According to the 1981 year-end investigation of the Beijing region, the compensation fee for every mu of state requisitioned rural land in the suburbs exceeded 200,000 yuan. Some production brigades in the suburbs of Tianjin actually had the nerve to demand more than 10,000 yuan from the state for the laying of an electric cable line. Furthermore, in some regions the compensation fee paid for state requisition of rural land goes back to the individual peasant as income. And in some specific places, the income that peasants get from selling some plots of land are deposited in banks and gain interest and thus are comparable to earnings of a grade 17 cadre. Such situations as these are not very rational. In 1982 the State Council published "Regulations for State Construction and Requisition of Land," which stipulated that rural land requisitioned by the state for capital construction should be compensated and that the structure of the compensation fee should be divided into the following five sections: 1) Land Compensation Fee. Compensation paid for the many years of investment put into the land by a production brigade and its amount equals between three to six times the annual production value of the plot of land. The production brigade may only use this income for production investment, and it may not be distributed as individual income for commune members. 2) Young Crop Fee. This is determined by whether or not there are any young crops on the land when it is requisitioned and if there are, then compensation is for one season, whereas if there are no young crops, then no compensation is made. 3) Land Property Removal Fee. Determined by the value and state of depreciation of any property or objects on the land. 4) Labor Force Settlement Fee. This fee is granted to the enterprise of the labor force of the one settling and occupying the land and is used for labor settlement and training. 5) New Vegetable Garden Construction Fee. Costs paid when vegetable gardens in suburban districts are used. This fee is paid into local finances and is used for

investments in the construction of new vegetable gardens. Calculated on the basis of the above-outlined five items, most areas around the Tianjin region are valued at around 5,000 yuan per mu. In addition, in actual practice there are also additional conditions, such as hiring and employment and the transformation of a rural population into a non-rural population.

After the announcement and implementation of the "regulations for state construction and requisition of land," the system was not implemented very well in many regions, some asking prices were too high, and in some cases there was constant wrangling. In some cases work was stopped from going ahead on unjustifiable grounds and this affected the progress of state construction projects. The "notice concerning strict implementation and practice of 'The Regulations for State Construction and Requisition of Land,'" published by the State Council in 1983 outlined very clearly that requisition and movement must have a legal basis and that such phenomena as fleecing the state and appropriation and abuse of capital construction should not continue. All levels of the people's government should come to grips with this important work of land requisition, and instruct the relevant departments to organize construction on requisitioned land. Solutions to questions involved in land requisition should be found as quickly as possible. This is especially true in the case of problems which have gone unsolved for many years and which are affecting construction, and solutions to these problems of requisition should be found within a limited period of time. The "notice" also stipulated that contravention of "the regulations" and demands for too-high prices should be criticized. Misappropriated compensation fees and settlement fees should be returned and abuse of employment and household transfer targets handled in the necessary way. Local people's governments should use legal sanctions against those who try to stir up trouble among the masses when opportunities for land requisition arise and who attempt blackmail and extortion and hinder state constructors.

The question of payments by enterprises under joint Chinese-foreign funding has come up against a new realistic problem in recent years. Overseas, land investment development represents a very large proportion of enterprise expenditures. Of course, foreign capital invested in China cannot use land free of charge. In 1980 the State Council announced "The Temporary Regulations Concerning Construction and Land Use by Enterprises Under Joint Chinese-Overseas Management." These regulations stated that land occupied by joint Chinese-overseas enterprises must be paid for with a utilization fee, regardless of whether it is rural land or urban land which is being used. It also stated that it was immaterial whether it was land newly requisitioned or land on which the enterprise already stood. This land utilization fee is set at from 5 to 300 yuan per square meter and in the case of suburban areas in large and medium sized towns and cities, is not less than 10 yuan per square meter.

We believe that not only should there be a single payment of a compensation fee for land requisition, but in addition there should also be a regular payment to the state Finance Department of a tax for land utilization, called land utilization payment. During the early years of liberation, the state set up real estate tax as a source of local financial revenue. Real estate tax was calculated and levied according to varying land prices. In 1973 during

the reform of the taxation system, the real estate tax paid by enterprises became incorporated into the commercial tax and the commercial tax was calculated and levied according to product quantity. This system of taxation thus became separated from the actual amount of land that an enterprise was using, and as a result the land user actually became a nonpaying land user. Remaining property taxes were paid only to individual owners, overseas Chinese, and housing management departments. During the present reforms to the taxation system it has already been suggested that methods of land utilization tax be defined and land is to be divided into three grades, upper, middle and lower. Tax will be calculated according to the size of the land area and on this basis a direct tax amount will be defined and thus the tax rate will no longer be determined by the land price.

## II. The Economic Nature of Socialist Land Price

The above-outlined situation regarding land price and the payment for land use since liberation in China illustrates that people have not understood the economic nature of socialist land price and as a result have organized it in a very chaotic way. In fact, the problems in China concerning the using of land without payment and the evasion of land price originate in the Soviet Union. For many years the Soviet Union practiced the theory of free natural resources, even going so far as to regard the theory as the outstanding feature of socialism. Their theoretical basis was that Marx once said that a thing can have a use value but no value if it is of no use to man through labor, such as air, virgin land, natural grasslands, forests, and so on. In fact, this is a misunderstanding of what Marx actually said. Marx said that virgin land has no value but he never said that it had no price. In fact, in China's present economic situation, regardless of whether we are dealing with rural land or urban land, state requisition of land and the selling of land between work units always involves a price. How can we understand these phenomena? There may be people who believe that charging for the sale of land is departmental selfishness. But why is a price always demanded in the selling of land and furthermore, why have specific proportional relations already been built up in most business involving land? It seems as if there must be a deeper and more essential factor involved here. We believe that in a socialist society land has a price and that land cannot be used free of charge. We will attempt here to outline our understanding of the economic nature of socialist land price so that we may study it together.

Before analyzing the question of socialist land price, we should first talk in simple terms about our understanding of Marx's clear ideas concerning capitalist land price. In a capitalist society, while undeveloped land does not have any value, this does not mean that it doesn't need a price. Land price is a kind of monopoly price. Because land is limited, the monopoly that the land owner has means that he can rent the land, and it is this which determines that the land has a price. When he wrote about how to correctly understand land rent, Marx said, "if one correctly understands land rent then one will naturally first come to realize that land rent does not come from the land but from agricultural products and thus also from labor and from the price of labor products (such as wheat). It comes from the value of agricultural products and from the labor invested the land, it does not come from the land itself."<sup>1</sup> Marx also closely linked land rent with ownership.



In "Das Kapital" he wrote, "land ownership in purely legal terms cannot create any land rent for the landowner. But the ownership ensures that the owner has the right to prevent anyone else from managing his land and even in terms of economic relations, it ensures that the use of the land provides the owner with a remaining sum, no matter whether the land is used for genuine agriculture or for other production aims (such as building, etc.)."<sup>2</sup> This is a way of gaining a free income by relying on rights of ownership:

land income minus land investment (consumption of means of production plus wages paid to laborers) equals net land product.

Net land product can further be divided into two parts: 1) land rent, which goes back to the landowner; 2) surplus agricultural profits which go back to the land-renting capitalist. In a capitalist society, land rent manifests itself in the relationship between the land user and owner. Capitalist land users differ from land users under the system of feudal land rent in that the former is established on the exploitation of workers. Capitalist land price is not a value price, but a capitalization of land rent. Marx said "any fixed monetary income can be capitalized and this means that it can also be viewed as ideal capitalist interest. For example, suppose the average interest rate is 5 percent; then an annual land rent of 200 pounds can be regarded as capital interest of 4,000 pounds. Land rent capitalized in this form creates the purchasing price or value of land and one realizes instantly that it is identical to the price of labor and that it is an irrational sphere, since land is not a product of labor and thus has no value. However, on the other hand, behind this irrational set-up real production relations are hidden. If the land purchased with a capitalist's 4,000 pounds produces an annual 200 pounds in land rent, then the 5 percent average annual interest that he gains from this 4,000 pounds is exactly the same as his investing the capital in interest-earning negotiable securities, or lending it out directly at 5 percent interest." "In fact this purchasing price is not the purchasing price of the land, it is the purchasing price the rent provided by the land, and is calculated on the basis of universal interest rates."<sup>3</sup> Here then we can understand how, although there is no labor invested, land (and all natural resources) may still have a price. This is not in the least strange. The price of land is in fact the price of land purchased with land rent provided by the land and is calculated on the basis of universal interest rates. The formula is:

land rent divided by interest rate equals land price.

In other words, there is a direct ratio between the land price and the land rent and an indirect ratio between the land price and interest rate.

As far as the question of the economic nature of land price in the socialist economy is concerned, we understand it in the following way: Under the socialist economic system of ownership by the people, the occupier, utilizer, and distributor of land are separated from the owner of the land. State managed organizations only occupy, utilize, and distribute fixed land given to them by the state, while the owner of the land is the state. However, under the socialist economic system of collective ownership, it is the collective which

has the power of occupation, utilization, and distribution of land, while the land is under collective ownership, in other words, in the socialist collective economy, the owner and utilizer of the land are indivisible. When the owner and the utilizer of the land are separate we believe that the utilizer cannot freely use the land but should make regular payments to the landowner, in other words, should remit a land rent to the owner of the land. This means that in the socialist society, not only is there a relationship of administrative subordination between the landowner and the land user, but there is also the more important economic relationship that exists between them. In the arena of the indivisibility between the landowner and the land user in rural areas, the product of "land rent" paid by the land user to the landowner cannot occur, nor is there an economic relationship which exists between the two. For example, within one production brigade there is no need to pay land rent. However, after the implementation of the agricultural production responsibility system, even more subtle relations developed between the landowner (made up of the commune or production brigade) and the true land user--the peasant households. Peasants cannot freely use land which is not theirs and so there is even more reason for them to remit a specific payment for the land. Perhaps this is the land rent that we should have in today's rural areas in China since it does not contravene Marx's basic theory that land rent occurs as a result of a division in the rights of land ownership and land utilization. Similarly, this theory expands to other areas of production, such as industry and commerce. In these areas the implementation of the responsibility system results in even greater differences in economic interests between different economic units, regardless of whether it is between industrial enterprises or between different shops. The amount of land used up, the location of the land, and so on mean by necessity that the production costs for the products or the enterprise's profits will differ. In this sense, land payment is extremely important and necessary. Just as payment must be made for the use of production funds under state ownership, payment must also be made for land used and this fee should vary. If we admit that in a socialist economy a land user must pay the landowner, then land price does indeed exist. It is the economic relationship which arises out of the right to land monopoly. As for the question of a land price only emerging for an area of land when it is sold, money must also be paid in the state requisition of land, and in fact it could in essence be said to be requisition by purchase. As for such economic phenomena as the enormous amount of land ownership transfers, which occur in both rural and urban areas, (which in fact are phenomena of the sale and purchase of land) the various kinds and styles of fees paid in these land "transactions" may be seen as an extension of requisition by purchase. Another reason for the existence of land rent and land price in a socialist society is the recognition within socialism of the difference in individual material interests under the umbrella of overall interests. The real existence of this difference means that this economic phenomenon permeates all aspects of our daily life. While land does not create value, it can produce differences in various material interests, and this difference incurred through nonhuman forces should be transferred to the benefit of the landowner, thus ensuring that distribution according to labor manifests a kind of quantitative nondifferential nature (in that equal labor produces equal amounts of products and not labor and natural forces producing products).

Marx said, "Judging from a rather high level socio-economic angle, an individual's right to private ownership of land is identical to one person's right to private ownership of another person, that is, totally absurd. Neither a society, a race, nor even the total of all simultaneously existing societies own land, they are simply the users of the land, those who are taking advantage of the land, and like a good head of a family, they must improve the land for passing it on to the next generation."<sup>4</sup> But what we understand by this is the highest level of communism. At present our socialist economy is not in that situation. As far as land is concerned, we still have the problem of the division between the rights of land ownership and the rights of land utilization. Within the socialist economy the concept of land rent not violating Marxist theories still exists. Socialist land price is not value price, but rather is the price of the land rent provided by the land. The existence of land rent is a premise for the existence of land price.<sup>5</sup>

In order to clarify this question, it should be noted that all the land of which we have discussed has been undeveloped land, and that means that we believe that under the socialist system, even undeveloped land can have a land price. In the present economic situation, production has now developed to a certain level and not only is land limited, in fact there is now very little land which society has not cultivated a little and this means that land is no longer given by nature. In view of this situation the calculation of land price and payment thereof is even more natural and reasonable and fully conforms with Marx's theory of the value of labor.

The above is our understanding of the economic nature of socialist land price. We believe that not only should one clarify the regularity of the nature of socialist land price, one should also research the regularity of the amount of socialist land price. In a socialist economy, regulation of the amount of land price is bound by strict rules, and must be much stricter and tighter than in the capitalist economy. This point requires the joint hard work and research of both theorists and practical workers for solution.

### III. Some Suggestions Concerning the Question of Land Price Calculation and Payment Regarding Reforms to the Economic System

On the basis of the above situation, we should consider making the following reforms to the question of the calculation of land price and payment during reform of the economic system:

1. Restoration of the land price calculation system. For a great many years now China has been practicing a highly collective planned economy and enterprises in fact have no independent control over funds, land, the labor force, products, and the majority of profits. This means that enterprises have not become independent accounting units worthy of that name, so naturally the principle of material interests has been difficult to implement. At the moment every line of business is involved in implementing the economic responsibility system and practicing independent accounting. In the future, all enterprises will be required to rely on their own profits to guarantee the use of their own production funds to carry out expanded reproduction. In this way the implementation of the system of price calculation for land becomes imperative. This is an important aspect of not eating from "the big rice pot."



The "Regulations Concerning State Construction and Requisition of Land" published in 1982 by the State Council stated that the requisition of rural land must involve compensation calculated according to the surface area of the land, whereas requisitioned urban land was not compensated. In our present economic reforms we believe that the requisition of urban land should be the same as the requisition of rural land with the requisitioning work unit paying the landowner a fee commensurate to the land price. Only in this way can we ensure that the costs of capital construction are the same on both rural and urban land, and in this way the accounting of costs in housing construction in the future will be more scientific, and will also lay down conditions for the stipulation of rational housing rents. We also believe that it is possible to lay down different grades of land price according to the abundance, location, and other factors relating to the land in question. If during the requisition of land no differences are made between good and bad qualities of the land and if all land prices are calculated in the same way, or even if there are differences but these differences are too vague, then groundless economic inequality will arise among land users.

2. There must be regular payment for land use. Just as enterprises are not allowed to use funds free of charge, but have to remit payments, an enterprise or peasant household should also pay for the land being used up ensuring that this payment becomes a structural factor in the price of the products. All resources (including land, production funds, and labor force) are only the conditions of production and in themselves they create no value. What creates the value is the actual labor invested in them. However, natural resources are not totally unrelated to production. Labor is the father of wealth and land is the mother of wealth. While natural resources do not transfer value during production, differences in natural conditions inevitably affect the production results of the labor invested. For example, such things as the land quality, the favorability of its location, and richness in minerals are all related to the amount of wealth created by labor. These differences are often called differential land rents. The system of land payments practiced in a socialist economy has, at the very least, the following few uses: 1) It can save on land use. China is a mountainous country, consisting of around 70 percent mountains, 20 percent water, and 10 percent usable land, and the contradiction between the large population and the small amount of land is very outstanding. According to very rough estimates, China has only opened up and developed 1.6 billion mu of land, an average of about 1.5 mu of land per person, and what is more, that average is decreasing. In the last 30 years capital construction has used up around 100 million mu of land, or one-sixteenth of existing land. In addition, there has been serious and frequent occurrences of commune members building houses and commune-run factories as well as tile and brick factories and other instances of rural collective utilization of land. There is an urgent need to adopt measures to save on land use. Experience has proven that free use of land frequently leads to an indiscriminate use of land, leading to wastage of this important and limited natural resource. 2) It can keep a fairly accurate check on the economic results of enterprises. Placing land within the sphere of economic accounting is an important step in further developing economic accounting. Apart from subjective factors, the results of enterprise management are affected and influenced by many objective factors. The amount of land used and the condition of the land are two such objective factors. Not only do these factors greatly influence agricultural production and mining production, they also directly affect industrial

production and commercial management. For example, in some industrial enterprises, space is very cramped, and this often causes difficulties in regular continuous production. When one compares commercial networks located in out-of-the-way little lanes with those located in the noisy city areas with little land and money, there are great differences in their management figures and circulation payments. If no payment is made for land, then inequality in the distribution of enterprises on uncompensated land manifests itself in economic inequality. Many enterprises using this uncompensated land will inevitably find themselves in extremely favorable and preferential economic positions. Payment for land use is in no way a pointless act of moving money from one pocket to another, rather it can encourage enterprises to use as little land as possible and to make full and effective use of the land they occupy.

3) It can centralize funds for the state. In economic readjustments "the people have become rich and the state poor" as a result of unsuitable implementation of certain economic systems. Over the last few years the national revenue has been constantly increasing while accumulation paid to the state has fallen. Gross industrial and agricultural production value has constantly increased but state financial revenue has fallen. The implementation of payable use of land can guarantee that the state accumulates even more income.

Naturally it should be explained here that land payment is only redistribution and this payment cannot be included in costs, just as fund payment and interest cannot be included in costs, otherwise in theoretical terms one would be committing an error of principle and in practice one would cause damage and harm.

3. Calculation of land price and its payment should be closely interlinked with other areas of economic reform and should be implemented simultaneously. If the land price is correct and the real estate tax or land payment is correct, without suitable and corresponding reforms in other areas to act as guarantees, this favorable motivation will find it hard to achieve good results. For example, land requisition costs as a singular financial expenditure are not included in the costs of building or product manufacturing and the value of fixed assets are not added or increased, so it is not included in the costs of a work unit using buildings. In this way there will be more land desired and more land used. Even if this land requisition fee was included in the costs of investment items and was switched to value as fixed assets, if building products are not counted as commodities, but are sold to the work unit using the land at a fixed price or are given free of charge, then there is little point in accounting for the land requisition fee. What is even more important is that having paid a land payment (or real estate tax), an enterprise, under the existing method of dividing profits, regards the land payment it has made as one of the "objective" influencing factors. This only reduces the total profit figures for the enterprise but does not affect the proportions of profits retained or the profit percentage. The result is that the enterprise is unconcerned with problems and, as before, tries everything it can to use land. If various reforms are not implemented simultaneously and if land price calculation and payment alone are implemented, then predicted results will not occur.

September 1983

#### FOOTNOTES

1. Marx: "The Theory of Surplus Value," "Collected Works of Marx and Engels," Vol 26 (II) p 158.
2. Marx: "Das Kapital," People's Publishing House, 1975, Vol 3, p 853.
3. Ibid., Vol 3, p 702-703.
4. Ibid., Vol 3, p 875.
5. In the socialist economy there is still room for discussion of whether or not the term "land rent" is suitable. We may as well use this term "land rent," as in this article we are mainly concerned with examining the economic relationship involved.

CSO: 4006/379

## NATIONAL POLICY AND ISSUES

### MATERIAL GAINS, PURSUIT OF MONEY DISCUSSED

HK301407 Beijing JINJI YANJIU [ECONOMIC AFFAIRS] in Chinese No 2, 20 Feb 84 pp 29-36

[Article dated December 1983 by Jin Shi [7246 1102] of the Economics Research Institute of the Chinese Academy of Social Sciences: "Fundamental Antagonism Between the Socialist Principle of Material Gains and 'Doing Everything for Money'"]

[Text] The theory on socialist material gains is an important part of the socialism section of political economy. Since the smashing of the "gang of four," the economic theoretical circles have conscientiously probed into this theory, criticized the various kinds of historical idealist fallacies spared by the "gang of four" which negate the principle of material gains, and clearly expounded on the Marxist viewpoint on material interests. This is of positive significance in promoting the development of our socialist economy. During the past few years, the party and government have conscientiously implemented the socialist principle of material gains. This has played an important role in the development of our economy and various other undertakings. However, some people hold the erroneous view that by stressing the implementation of the socialist principle of material gains, we precisely encourage people to "do everything for money," while others think that since we want to implement the principle of material gains, it is natural to "do everything for money" and that, therefore, we should not oppose this practice. Both views confuse the principle of socialist material gains with "doing everything for money." Therefore, it is necessary to clarify people's ideas and to distinguish right from wrong.

#### Two Opposite Views on Material Gains

Marxism holds that the relations of production, that is, the economic relations, are the basis of social relations and that they determine all other social relations. Engels said: "Every social relation is first shown as interests."<sup>1</sup> The interests here means material gains. All practical social activities of the human race are gained at achieving certain material gains. Material gains underlie all kinds of socioeconomic modes, therefore, people striving for specific material gains is a kind of objective and inevitable reality independent of people's will. The problem is that different relations of production determine different interests. The source of class struggle lies in the antagonism and clash between the economic interests of various classes. Lenin pointed out:

"We should look for the causes of social phenomena in the relations of production and ascribe the causes for these phenomena to the interests of certain classes."<sup>2</sup> The task for Marxists is to expound on the difference in the interests of different classes and disclose the nature, class content, and forms in different socioeconomic modes. Material gains are not only shown as a certain amount of things, but are also a kind of economic relations. In the final analysis, the social nature and the forms of material gains are determined by the nature of the ownership of the means of production, and they change as the nature of the ownership of the means of production change. Therefore, material gains have their specific class connotation. Objectively, there are material gains of different classes, which determine these classes' different views on material gains.

In a capitalist society, the capitalist private ownership of the means of production determines that the material gains of the bourgeoisie are realized through exploiting the proletariat and the vast number of laboring people. This is shown in the practice of extorting the greatest possible surplus value in order to achieve an unlimited increase in capital. Therefore, making money is the only motive for capitalist production, and money is the lifeblood of capitalists. Engels pointed out: "In the eyes of the bourgeoisie, every thing in the world exists for money, and this is even true for its members because they live for making money and because they know no happiness other than becoming rich at a great speed nor any grief other than pecuniary losses."<sup>3</sup> In order to make more money to fill their purses, capitalists adopt various kinds of dirty means to cruelly exploit the proletariat and masses of laboring people. Capitalists' interests are identical in exploiting the proletariat and the masses of laboring people, but their interests clash in some aspects. As a result, they scramble with one another fiercely and this gives rise to a savage and ~~chaotic~~ situation of "big fish eating up small ones" and "the weak being the prey of the strong."

People's being determines their thinking. The economic conditions under which the bourgeoisie live determine that its views on material gains are inevitably views which uphold putting profit-making and money first, which uphold selfishness, harming others to benefit themselves, and putting individuals first, and which regard as their faith the sayings "everyone takes care of himself and God takes care of all people," and "everyone for himself and the devil take the hindmost."

The proletariat entirely differs from the bourgeoisie in its views on material gains. Before it seizes state power in order to win material interests for its own class, it must unite the vast masses of people in its own class with other masses of laboring people and wage a life and death struggle against the bourgeoisie. Only by achieving victory in this class struggle can there be guarantees for the material gains of the proletariat and all laboring people. The success or failure of this class struggle determines the destiny and interests of every member of the proletariat and the masses of laboring people. Therefore the material gains of the proletariat are not only the individual interests of its members, nor only the interests of the proletariat as a class, but include the interests of the entire laboring people, including the proletariat.



The proletariat regards the liberation of the entire human race as its task. Lenin pointed out: "According to the basic ideas of Marxism, the interests of social development are superior to the interests of the proletariat and the interests of the workers movement as a whole are superior to the interests of a part of the workers or a certain stage of the movement."<sup>4</sup> Therefore, for the proletariat, the common interests of itself and the people are superior to anything, and without these common interests, it is impossible for a laborer to gain any personal interests. Adhering to the principle of maintaining unity between the common interests of the laboring people and their personal interests as individuals, making their personal interests subordinate to their common interests, making the interests of a part subordinate to the interests of the whole, and making immediate interests subordinate to long-term interests is the proletariat's view on material interests which has taken shape in its practice of class struggle. In the "Communist Manifesto," Marx and Engels said: "Communists have no interests other than those of the entire proletariat" and the "Campaign of the proletariat is an independent campaign for the overwhelming majority of the people and a campaign to pursue their interests."<sup>5</sup>

After the proletariat seizes state power, it establishes a socialist society, realizes the socialist public ownership of the means of production, and thus enables the masses of laboring people to be free from the miserable predicament of the exploitation and operation by capital and become masters of society. The characteristics of socialist public ownership are that the means of production no longer constitute capital and are no longer other people's property opposed to laborers and that the class antagonism between capitalists and the proletariat and between exploiters and the exploited is eliminated. The socialist relations of production determine that the interests of the state, collectives, and laborers as individuals and the interests of areas and departments are identical and that there are no longer any clashes of fundamental interests. However, at the stage of socialism, because of the underdevelopment and uneven development of the productive force, because of the imperfect socialist relations of production, and because of the failure to eliminate the old division of labor and other reasons, on the basis of the identity in the fundamental interests of the state, the collective, and the laborers as individuals and of areas and departments and of people of various sections, there are still contradictions between their interests owing to these causes. However, these contradictions are not antagonistic and can be appropriately solved within the socialist society by adopting correct measures and through internal readjustment. The socialist principle of material gains is precisely an effective principle for solving these contradictions. In short, the tenet of this principle is that, under the precondition of subordinating individual interests to collective interests, the interests of the part to those of the whole, and the immediate interests of both the state and collective and individuals, the interests of both the part and the whole and of both the immediate and long terms. Neglecting or harming any of these interests goes against the principle of socialist material gains. Therefore, Comrade Mao Zedong once emphatically pointed out: "We should take into account both the state and its factories, both the state and the workers, both the factories and their workers, both the state and the collectives, both the state and the peasants, and both the collectives and peasants and should not attach importance to only one party of each of the pairs. Neglecting any one party of each of the pairs is unfavorable to socialism and proletarian dictatorship."<sup>6</sup>

Making a clear distinction between the two kinds of opposite viewpoints on material gains will also enable us to clearly understand the fundamental antagonism between the socialist principle of material gains and "doing everything for money." "Doing everything for money" denotes a practice in our social life, a practice of discarding the magnificent goal of socialist modernization and regarding "money" as the loftiest goal to be pursued in life, a practice in disregard of the interests of the state and people, a practice of taking into consideration only the interests of individuals or a small group of people, a practice in disregard of the norm of behavior which a citizen must observe, a practice of conducting any unhealthy practice to profit oneself at the expense of other people or the state as long as one can make money by so doing, and a practice that for money's sake, one even does not hesitate to sell his soul or give away his personal or national dignity. From this we can see that as a viewpoint on material gains, "doing everything for money" is a bourgeois viewpoint on material gains. It is diametrically opposed to the socialist principle of material gains. "Doing everything for money" corrupts our general mood of society and corrodes people's souls. If we allow the practice of "doing everything for money" to continue to develop, egoism and departmental selfishness will run rampant and thus cause the malpractice of profiting oneself at the expense of other people and the public. This will inevitably result in deepening the contradictions between various spheres, giving rise to clashes of their interests and causing losses to the interests of society as a whole and to the interests of people as individuals. Therefore, we must oppose the bourgeois viewpoint on material gains. Only by so doing can we correctly implement the socialist principle of material gains.

#### The Correct Application of Economic Levers and the Enlivening of Our Economy Differ From 'Doing Everything for Money'

In order to enliven our economy and develop socialist production, we are carrying out the experiment of economic structural reform under the guidance of the correct principles of the 3d Plenary Session of the 11th CPC Central Committee. We have utilized some economic measures which conform with the internal relationships of economic activities to readjust production and circulation and to overcome the previous practice of merely applying administrative means, for example, the measures of stressing the raising of economic results, increasing socialist profits, adhering to the principle of distribution according to labor, encouraging people to become rich through working hard, allowing some people to become rich first, developing commodity and currency relationships, and so on. All these measures are entirely necessary and correct. However, some people denounce these measures and regard them as measures to encourage people to "do everything for money," while some other people regard "doing everything for money" as a practice which conforms with the party's various policies to enliven our economy. Both the former and latter people's views are wrong.

In a socialist society, in order to satisfactorily conduct administration and management in an enterprise and to raise economic results, an enterprise must become a relatively independent economic unit that has certain responsibilities, powers, and interests and must organize its management activities in accordance with accounting principles. The key requirements in an enterprise's accounting system are to make ends meet and earn profits. Reducing costs and increasing

profits (including tax payment) is an important tax for a socialist enterprise. Socialist profits are a mode of the value of surplus products that the laboring people provide to the state and society, and these profits embody the relationships between the material interests of the state and enterprises and between the material interests of various interests under the conditions of the public ownership of the means of production and on the basis of the identity of their fundamental interests. From the point of view of distribution, a small part of the profits earned by a socialist enterprise will be retained by the enterprise as the reserve funds which it can spend in developing its production, increasing the collective welfare of its staff members and workers, and awarding them, while most of the profits will be handed over to the state as its financial revenue. The state, which represents the interests of the entire masses of laboring people in a socialist country, will plan as a whole the rational spending of this revenue in accordance with the needs of the entire society. Socialist profit, whether the part of it which is retained in our enterprises as their reserve or the part of it which is delivered to the state as its financial revenue, is all used to serve the interests of the masses of laboring people as a whole and as individuals and to serve their long-term and immediate interests. From the point of view of the aim and means to earn profits, the aim of socialist production is to create daily increasing social material wealth in order to continuously satisfy the daily increasing material and cultural demands of the broad masses of people. Increasing profits is precisely aimed at realizing this aim. At the same time, increases in our profits should also be achieved in the process of realizing the aim of socialist production. Therefore, when an enterprise earns profit, it should observe the series of principles and policies which the socialist state has stipulated in order to realize the aim of socialist production and to take account of the interests of all in its overall planning. For example, the state's policies stipulate that the fundamental ways for an enterprise to make profits are to improve its administration and management, raise labor productivity, reduce costs, and improve the quality of its products and that an enterprise is banned from making profits by dishonest means, such as speculation, violation of the state's principles and policies, deception, and injuring the interests of the consumers. Moreover, while regarding profit as an overall index to evaluate the performance of an enterprise, the state also evaluates an enterprise by other indexes, such as output, variety, and quality of products and consumption of raw materials and fuel, in order to prevent an enterprise from pursuing profits at the expense of other indexes. The state can also adopt a series of measures, such as levying taxes and charges for the employment of fixed assets, in order to exclude all the external factors (such as prices, availability of resources, geographical locations, and technical equipment) which have an impact on an enterprise's profits and thus make the profit figure of an enterprise really reflect the subjective efforts and quality of management of an enterprise.

From this we can see that socialist profit is an effective lever to readjust and take into an overall account the interests of the state, the production units, and the laborers as individuals. The greater the socialist profit earned by the various decent means for increasing economic results, the greater the quantities of surplus products a laborer provides for the society and the stronger the material strength to satisfy the demand for expanded production and the common demand of society. The greater this kind of socialist profit, the better;



therefore, we must boldly and vigorously grasp socialist profit. This has nothing to do and cannot be confused with "doing everything for money." Disregarding the aim of socialist production, adopting dishonest means, and injuring the interests of the state and consumers to earn illegal profits is the practice of "doing everything for money" which we should fight against. Examples of this practice are that in order to make money, some enterprises or individuals disregard the policies of the party and state, evade taxes, commit speculation, do shoddy work and use inferior materials, commit deception, wantonly increase prices, give short measures, and injure the interests of the consumers. Other examples are the management style of putting profit-making first, disregarding the needs of the state and people, and malpractices in the distribution of profits such as trying every means to retain profits which an enterprise must deliver to the state and retaining greater profits by means of violating the financial regulations and discipline in order that the enterprise, as a small group, can get a greater share in the distribution and can pay excessive bonuses. All these malpractices must be resolutely opposed by us.

The illegal profits that an enterprise gains by dishonest means for the purpose of "doing everything for money" is, in essence, to possess, without compensation, a part of the social wealth created by other production units and to possess the social wealth which must have belonged to the state, other units, or consumers as individuals. This runs counter to the socialist principle of material interests and injuries, in the process of pursuing the interests of a part or a small group, the interests of the state and the whole, the interests of other units and consumers as individuals and thus is detrimental to the consolidation and development of the socialist relations of production.

To sum up, we should not regard attaching importance to socialist profits in our enterprises as "doing everything for money" nor adopt an attitude of "doing everything for money" toward socialist profit.

In the historical stage of socialism, the degree of the development of the public ownership of the means of production and the degree of the development of the productive force determines that the principle of distribution according to labor must be carried out in distributing consumer goods among individuals. What we call "distribution according to labor" means that after the necessary reduction for various social reserves, what is left of the material means created by laborers should be distributed among the laborers according to the amount and quality of labor they have provided for society. Those who have provided more labor should get more and those who have provided less should get less, and those who do not labor will get nothing to eat. This is identical to the general principle in commodity exchange of equal value, that is, exchanging an amount of labor for an equivalent amount of products. This equivalent amount of products is given to laborers as individuals mostly in the forms of money (wages and bonuses). Here, the amount of labor of a laborer is very closely related to the amount of his income in terms of money. However, the implementation of the principle of distribution according to labor is diametrically different from "doing everything for money," for the principle of getting a greater share of distribution by doing more work means that doing more work is the precondition for getting more remuneration. Doing more work will create more material wealth

for society and make greater contributions to the state and collective. Only under the precondition of doing more work can a laborer get more remuneration. Therefore, the implementation of the principle of distribution according to labor is a very good channel to combine the interests of the state, the collective, and the individual. At the same time, this principle is also a powerful weapon in the struggle against the idea of the exploiting class which upholds making gains without doing any labor. This is because by implementing the principle of distribution according to labor, we have a force that we can use against those exploiters who always love ease and hate work and who profit by other people's toil. Thus, we will enable them to reform in the process of labor and thus become laborers who earn their own living. Therefore, the most essential requirements of the principle of distribution according to labor is, first of all, that people are required to provide more labor for society in order to get a corresponding remuneration from society. It does not encourage people to "do everything for money"; instead, it encourages people to gradually improve their livelihood through doing more work. However, the reflection of the idea of "doing everything for money" in the attitude toward labor and remuneration for labor is: pursuing more remuneration while not willing to do more work or even pursuing more remuneration without doing any work. This attitude toward labor and remuneration for labor is, in essence, an attitude of the exploiting class, which wants to profit by other people's toil. This runs diametrically against the principle of "from each according to his ability and to each according to his labor."

Since the smashing of the "gang of four," the CPC Central Committee has adopted a series of principles and policies to facilitate the development of agricultural production, implemented diverse forms of the agricultural production responsibility system, and called on the vast number of peasants to "get rich through hard work." There has been an unprecedented upsurge in the initiative of the vast number of peasants in developing production and, as a consequence, agricultural production has developed quickly and the peasants' livelihood has improved to a great extent. However, some people think that since we want our peasants to become rich, why do they oppose the idea of "doing everything for money?" Others worry whether we will change the policy of "getting rich through hard work" since we oppose the idea of "doing everything for money." They wonder whether we can continue to raise the slogan of "getting rich through hard work." We must clarify these problems.

Enabling our millions of peasants to become rich and lead a happy life and thus promote the prosperity of the entire country is the goal of our socialist revolution and construction and a basic rural policy of our party. We should not regard any idea related to "richness" as the idea of "doing everything for money" and thus regard them as being equal to the advocacy of capitalism. Here, we should draw two clear demarcation lines: 1) our goal is to make our peasants become rich together and we do not want a part of them to become rich and others of them to continue to suffer from poverty. However, because of the disparity in their production and living conditions, labor capability, and family structure, the speed and extent in becoming rich differs for different peasants and we should not pursue egalitarianism in this sphere. Some peasants will become rich earlier

than others. This will be an objective and normal situation and these peasants will bring along other peasants to become rich together. This cannot be confused with the malpractice of benefiting oneself at the expense of others or with polarization. 2) We encourage people to become "rich" through production labor. As long as our peasants become "rich" households with an income of 10,000 yuan a year by relying on their own hard work, it is a rational and decent practice. This is the same practice as that of our workers who do their work satisfactorily and thus get more wages and lead a better, well-to-do life than other workers in accordance with the principle of distribution through labor. Through their hard work our peasants have developed their production and produced large quantities of agricultural and sideline products to satisfy the demand resulting from the material life of the vast number of urban and rural people. This is a contribution to socialism. On this basis, our peasants have correspondingly increased their income and become rich. Is this not precisely a practice to satisfactorily combine the interests of the state, collective, and individual? Is there anything wrong in it? What we oppose is only the malpractice of making a fortune by inappropriate means at the expense of the interests of the state, collective, and other people or by pursuing unhealthy practices. "Becoming rich" by these means is a practice of regarding making other people suffer poverty as the price and means for oneself to become rich. This is precisely the practice of "doing everything for money" that we must oppose. It is essentially different from the practice of "getting rich through hard work" that we are advocating. The principle of "getting rich through hard work" has enabled a part of our peasants to become rich earlier than others through their hard work. This is an important policy that our party must persist in implementing. We will not abolish this policy because we oppose the idea of "doing everything for money." On the contrary, opposing "doing everything for money" is precisely aimed at more satisfactorily implementing the policy of "getting rich through hard work."

Besides, we should also see that in a socialist period, because of the coexistence of various kinds of ownership and the underdevelopment of production, we must vigorously develop socialist commodity production and exchange in order to promote the development of the socialist economy. Practice in various socialist countries has proved that abolishing commodity production and exchanges is detrimental to the development of a socialist economy. At the present stage, the commodity and currency relationship is indispensable in our economic life. The socialist commodity and currency relationship means a relationship which requires the exchange of equal amounts of labor in the forms of commodities and currency in the spheres of production, distribution, exchange, and consumption on the basis of the public ownership of the means of production in order to promote the rapid development of the social productive force and thus enable the further consolidation and development of the socialist relations of production. In an economy of public ownership, this commodity and currency relationship is the form of the socialist relations of production characterized by equality and mutual help and is restricted by the basic economic law of socialism and by the law of planned and proportionate development. It is diametrically different from the relationship in a capitalist society between commodity producers, which is a relationship characterized by fierce clashes and mutual deception. In a capitalist society, capitalist private ownership has turned the relationship between people into a relationship of money and commodities. As a result, the relationships



between people becomes a ruthless relationship of money interests. "Except for money transactions, he does not acknowledge any other relationship between people, and even the relationship between himself and his wife are 99 percent reflected in the same kind of money transactions." In our socialist country, the relations between people are, in essence, a kind of relation of mutual help and cooperation. Though in the economic sphere we still have to apply the forms of commodity and money and attach importance to the role of money, people's relations are not the money relation in a capitalist commodity economy, a relation which reflects the conflicts of interests between commodity producers and which is characterized by doing everything for money and pursuing nothing but monetary gains. If we advocate the practice of "doing everything for money," we will turn people's socialist relations of mutual help and cooperation into a capitalist money relation characterized by conflicts of interests. This will cause some people to have no scruples in selling their reputation and power for money, to turn literature, art, and other spiritual wealth from a means to educate and unite our people into a means to earn money, and to fill their works with vulgar and pornographic content in order to attract customers and earn money. This is incompatible with and entirely unsuitable to the aim of socialist production for the satisfaction of the continuously increasing demand of society and its members. Therefore, we must fight against it. This is precisely the fundamental difference and demarcation line between our series of principles and policies to enliven our economy, including the policies and measures to develop the commodity and currency relationship, and the practice of "doing everything for money."

#### Correctly Handle the Relationship Between the Implementation of the Socialist Principle of Material Interests and the Strengthening of Communist Ideological Education

We have already analyzed the diametrical antagonism between the socialist principle of material gains and "doing everything for money" and distinguished between the application of relevant economic levers to enliven our economy and the idea of "doing everything for money." How, then, should we correctly implement the socialist principle of material interests and oppose "doing everything for money?" We think that one of the keys to this question is to satisfactorily handle the relation between the implementation of socialist material gains and the strengthening of communist ideological education.

Some comrades are of the opinion that the implementation of the socialist principle of material interests and the strengthening of communist ideological education are mutually contradictory and incompatible. Therefore, in their actual economic activities, they pay attention only to material reward and neglect spiritual encouragement and ideological education and regard necessary ideological and political work as "armchair politics." We should point out that this is a muddled and erroneous idea.

The implementation of the socialist principle of material interests and the strengthening of communist ideological education are not only in conflict, but they supplement each other and each cannot do without the other. Material gains are the necessary condition for people in undertaking all activities,

including the activities of communist ideological education, while communist ideological education is a fundamental guarantee for the correct implementation of the socialist principle of material interests. Without the guidance of correct politics and thoughts, our economic activities will go astray or even deviate into an unhealthy path. Historical materialism holds that man cannot subsist or develop if man is divorced from material conditions. The achievement of certain material interests is the goal of social production as well as the basic condition for the subsistence of the human race. However, people want spiritual life as well as material life. They do not live only for the sake of subsistence and will pursue various kinds of loftier goals.

Every laborer who lives under our socialist system is the creator and builder of a wonderful new society. We must have lofty ideals and aspirations. We should make greater contributions to the state and the human race through our labor and work and thus contribute to the realization of the great communist cause. We should not regard pursuing personal material interests and enjoyment and making money as the final goal of our lifelong struggle. If man lives only for his own subsistence and enjoyment, his outlook on life is entirely a bourgeois one. Moreover, what is the difference between his subsistence and an animal's? Marx pointed out: "True, eating, drinking, and sexual activities are the functions of a real man, but if these functions are divorced from man's other activities and regarded as a final and only goal, in this kind of abstraction, they are precisely the functions of an animal."<sup>8</sup>

The communist cause is a magnificent, grand, and arduous cause, a cause that is worth our devotion. Socialist modernization is a part of the communist cause. It is impossible for us to carry out our socialist modernization program if we do not have a spirit of selfless devotion to the public and an indomitable willpower. Comrade Mao Zedong said: "A man must have some impetus." Without a strong spiritual impetus, it is impossible for us to build socialism. Of course, we will not be able to stir and encourage our people only by a revolutionary spirit, we must also implement the socialist principle of material gains. However, practice has proved that without the guidance of the communist ideology, it is impossible to correctly handle the relationships between the interests of the state, the collective, and the individual and for the socialist principle of material gains to be really implemented. Therefore, in implementing the socialist principle of material interests, we must not only pay attention to satisfying the material requirements of our laborers and to material reward, but we should also pay attention to necessary spiritual encouragement and to educating the vast numbers of people in communist ideology. We should combine material reward with spiritual encouragement and implement the principle of rewarding spiritual encouragement as the core and supplementing it with material reward. While showing concern for the material interests of the masses of people, we should imbue them with communist ideology, enable them to foster communist ideal and virtues, arouse our laborers' socialist initiative, and make them foster the idea of serving the people wholeheartedly and adopt a selfless labor attitude.

Some people worried whether being particular about the communist ideal will lead to the immature transition into communism, negating material interests and pursuing egalitarianism. The emergence of such a worry shows that we should make a strict distinction between the two. Immature transition to communism and egalitarianism are the outcome of the fanaticism of the petite bourgeoisie and the ideology of small-scale peasant economy. It is a distortion and negation of

communist ideology. We must oppose it at all times. Publicizing the communist ideal and carrying out the construction of socialist spiritual civilization with communist ideology as its core by no means signifies negation of material interests for individuals or the implementation of egalitarianism.

First, the realization of the ideal of communism is where the greatest interests of the human being lie and it also enables the best satisfaction of the personal interests of the members of society. Comrade Deng Xiaoping said: "Communism is a higher stage in which the productive force is highly developed, in which the principle of to each according to his needs and from each according to his ability is implemented, and in which personal interests will be acknowledged to a greater extent and personal needs will be better satisfied."<sup>9</sup>

Second, when the party and state formulate their policies, they should fully take into consideration the personal interests of laborers and make allowances for these interests as much as possible. They should stress being strict and fair in meting out rewards and punishment, combine the material interests of individuals and small collectives with their economic responsibility for the state and society, oppose the unrealistic devocation of "unpaid labor" among the vast number of masses of people, and still more oppose bureaucracy which shows no concern for the livelihood of the masses of people and the practice of disguised egalitarianism. For every laborer, he should consciously safeguard and subordinate his own interests to those of the state and collective and adopt an attitude of a master toward his work and labor.

Third, our stressing of the strengthening of communist ideological education is precisely aimed at opposing egoism, opposing the idea of having no scruples whatever in making money, and fighting against the practice of increasing one's personal interests at the expense of the people's common interests and the idea of putting one's personal interests first. Lenin said: "Among our workers, we never tolerate the egoists who are not willing to combine their own interests with the interests of all the workers and peasants."<sup>10</sup> Stressing the strengthening of communist ideological education will never lead to the immature transition to communism or the practice of egalitarianism and will only better facilitate the overcoming and correction of this unhealthy tendency and facilitate the correct implementation of the principle of distribution according to labor.

Others think that since we acknowledge personal interests and the "selfish nature in human beings," it is reasonable and unavoidable to "do everything for money." There are not many grounds to support this argument, for there are no necessary relations between personal interests and selfishness. Whether or not personal interests are reflected in selfishness is determined by the economic relations of the society where people live. Only in a society with private ownership of the means of production are personal interests inevitably shown in selfishness. Lenin once vividly depicted this situation: "The principle that the old society based itself on is: If you do not plunder other people, they will plunder you; if you do not work for other people, you should have other people work for you; and if you do not become a slave owner, you have to be a slave. Therefore, all those who are educated and brought up in this society can be said to have this mentality, habit, and viewpoint from the cradle--if they are not slave owners, they have to be slaves or owners of small properties, small staff, small officials and intellectuals, in short, people who show concern for nobody but themselves."<sup>11</sup>



However, this has been radically changed in socialist society based on the public ownership of the means of production. The people are the masters of the means of production and every member in the society should pursue his due personal interests while increasing the interests of the society and collective through his conscious labor. The relations between people should be a relation of mutual help and cooperation instead of a scrambling relation. As long as the relationships between the interests of the state, collective, and individual are correctly handled, personal interests will not necessarily be shown in selfishness. In fact, any personal interests of the broad masses of the people can only be gained in the struggle for common interests. If the gross social products do not increase, if the social economic results do not rise, if the distributable national income does not increase, there will be no foundation or conditions for increasing the personal interests of our laboring masses. If the state is not prosperous, it is impossible for the people to be well fed and well clothed.

As for the phenomena of "doing everything for money" and the diversified practice of individualism, they are not the necessary consequence of admitting personal material interests, still less the necessary outcome of the socialist economic system. This is mainly the consequence of the influence of the private ownership mentality and the ideology of all the exploiting classes which has taken shape in the thousands of years of private ownership of the means of production and which even now rules the minds of most of the people in the world. It is a "remnant" of the old society and is also, to a certain extent, related to the underdevelopment of the productive force, the disparity in material interests, and the existence of some private economy. In other words, it has profound economic and social sources. It is precisely because of this that in the current socialist stage in our country, if we fail to strengthen communist ideological education or to use communist ideology to fight against all the remnants of old ideology, this kind of phenomena will not only not disappear, but will be aggravated. Moreover, decadent ideology will corrode our bodies and pollute our minds and thus cause serious consequences and hinder and undermine the construction of socialist material and spiritual civilization.

Precisely because of this situation, we should vigorously strengthen communist ideological education, develop socialist spiritual civilization, foster the public ownership mentality and the mentality of masters of the country, which are suited to our principal economic system, and gradually reform and overcome the private ownership mentality. "We should criticize and oppose the worship of capitalism, the tendency of bourgeois liberalization, the bourgeois decadent thoughts of profiting oneself at the expense of others and of putting profit-making first and 'doing everything for money,' anarchism, and out-and-out egoism."<sup>12</sup> Effectively eliminating and preventing the corrosion of diverse forms of the ideology of the exploiting classes is a long-term, arduous task which demands the common efforts of several generations of our people.

#### FOOTNOTES

1. Engels: "On the Housing Issue," "Selected Works of Marx and Engels," Vol 2, p 537.
2. Lenin: "Economic Content of Populism," "Collected Works of Lenin," Vol 1, p 480.

3. Engels: "State of Affairs of the British Working Class," "Collected Works of Marx and Engels," Vol 2, p 564.
4. Lenin: "Draft Program of Our Party," "Collected Works of Lenin," Vol 4, p 207.
5. Marx and Engels: "Communist Manifesto," "Selected Works of Marx and Engels," Vol 1, pp 264, 262.
6. Mao Zedong: "On 10 Major Relationships," "Selected Works of Mao Zedong," Vol 5, p 275.
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CSO: 4006/388



JINGJI GUANLI ON ECONOMIC BALANCE WITHIN REGIONS

HK281317 Beijing JINGJI GUANLI in Chinese No 2, 5 Feb 84 pp 8-11

[Article by Wang Zukang [3769 4371 1660]: "A Look at Questions Related to Comprehensive Balance Within the Regions"--passages within slantlines in boldface]

[Text]

I

Comprehensive balance represents an important means in the implementation of economic policies in China and it also represents a fundamental method for the national economy to carry out planning management. The importance of carrying out good macroeconomic, comprehensive balancing throughout the country for achieving stable growth and coordinated development in the national economy has become increasingly understood by everyone. However, the role of comprehensive balance within the regions and the effect that achieving a comprehensive balance within the regions has on achieving national comprehensive balance has not received sufficient attention. For many years now there has been no accurate solution to the question of how a comprehensive balance within the regions should be achieved and what the characteristics, tasks, and methods of a comprehensive balance within regions are, and of how all of this can be transformed from theory into practice.

There is one school of thought which believes that as long as national comprehensive balance on a macroeconomic scale is achieved, the state of a comprehensive balance within the regions is irrelevant. A view such as this is one-sided. Naturally, it is true that if a comprehensive balance in the national macroeconomy is achieved, then it is fairly straightforward to achieve a comprehensive balance within the regions and, even if individual regions display dislocations of one kind or another, these are fairly easy to rectify. On the other hand, when control is lost over the national macroeconomy and serious dislocations appear in major proportions, this will inevitably lead to a state of dislocation throughout the regional economies. In this sense, a national comprehensive balance represents a necessary premise and guarantee for achieving a comprehensive balance within the regions and this is without doubt correct. However, this is only one side of the question. The other side is that the major proportional relations of the national economy, such as those between social production and social demand, the mutual balance between consumption and accumulation, and so on, are implemented in a decentralized way among the regional grassroots units and are achieved by means of various complex and mutually interlocked links such as production, circulation and consumption. The planned comprehensive balance between the various

is concerned, this balance is also very comprehensive and all-pervading and it permeates all areas and all processes of social reproduction within that entire region. This, then, determines that a comprehensive balance within the regions must rely on, and submit to, a national comprehensive balance, and that it is of a definitely partial nature while at the same time it also has its relevant independence. When compared with a national comprehensive balance, the main characteristics of a comprehensive balance within the regions manifest themselves in the following ways:

/First, the two major categories of regional production and the proportional relations between agriculture and light and heavy industry are conditioned by state planning of each region's inward and outward transferal of products./ Our country is a unified economic system under socialist planning and no town, nor even any large economic region, is able to form a whole and self-sufficient economic system. On the basis of the demands of "the country being a chessboard" and on the basis of the actual situation in each region, the state carries out rational deployment of the productive forces in every region. In addition, every region must gradually create specific focal points for development of the basis of the technological conditions and natural resources available, so as to give full expression to the superiority of that region's economy and to achieve maximum economic results. Hence, the extent of each region's needs and the make-up of each region's requirements for material products are often not entirely or directly in balance with that region's total quantity and makeup of material production, but, rather, must depend on adjustments in the inward and outward transferal of products as specified in state planning. For example, Shanghai is a comprehensive industrial city, the mainstay of which is processing industries, and for its energy and major industrial raw materials it has to depend mainly on allocation and transferal from other areas or on imports, while manufactured products are transferred to various other regions of the country or exported according to state planning specifications. In 1982, the quantity of Shanghai products transferred out of the city made up 66.2 percent of the city's total industrial production value. Industrial products transferred to other regions of China made up around 45 percent of the country's total amount of products for allocation and transferal. Clearly, then, there is little point in ignoring and departing from the extensive coordination of the division of labor and the necessary economic relations which actually exist throughout the entire country, nor is there any point in ignoring or departing from the state-arranged planning of inward and outward product transferal, with a view to researching in [word indistinct] the structure of the two major categories in Shanghai and the proportional relations between its agriculture, light industry, and heavy industry. At the same time, the situation in each region varies, and hence in a comprehensive regional balance we should not unrealistically and blindly seek for the so-called light structure or heavy structure in a regional economy, nor may we use "one cut of the knife" and stipulate unified proportional relations between agriculture, light industry, and heavy industry suitable for all regions. If we only start from the requirements of each individual region, using advantages and making up for shortcomings, and if we simply try to achieve self-sufficient regional balance, then the results will inevitably disrupt or destroy the national comprehensive balance and may even create large amounts of repetitious and blind construction and thus affect the development of the macroeconomy.

departments of the central authorities can only be achieved when they have been concretely implemented in all regions and at all grassroots levels. If one departs from comprehensive balance within the regions, then it is very difficult to avoid the plans which are arranged by the state and its departments becoming separated from the reality of the situation in the various regions of the country, and thus various contradictions emerge, which results in an inability to implement national comprehensive balance everywhere. Hence, comprehensive balance within the regions is not only necessary for the coordinated development of the regional economies, it is also an important basis for a comprehensive balance in the entire national economy.

At the same time, a complete comprehensive balance within the regions should also include the arrangement and organization of all economic activities of all enterprises, undertakings, and work units managed by either the central authorities or the regional authorities within each region. Only in this way can we ensure a rational and coordinated development in the regional economy and society. According to the existing system of economic management, enterprises and undertakings managed by the central authorities do basically have their production, sales, and supplies, as well as manpower, financial, and material resources, directly organized by the relevant departments of the central authorities, but the development of these enterprises still requires organization and far-reaching coordination within many areas of the region itself and this includes the distribution of regional natural resources, economic coordination, and supplies of regional raw materials, as well as the rational distribution of energy resources, electrical power, and manpower and the organization of regional short-haul transportation and shipping. All of these things require unified organization within the sphere of the entire region. It is even more important that the workers' livelihood, cultural education, medical attention and hygiene, commercial services, and installations, as well as corresponding urban construction for these enterprises and business work units do not depart from comprehensive balance within regions. In this sense, even if the economic management system changes in the future, as transbusiness and transregional economic entities increase, and regional governments no longer have such direct control and management of enterprises, work for achieving comprehensive balance through regional planning will still be absolutely vital.

It can be seen that a comprehensive balance within regions is an integral part of overall national comprehensive balance and it is an important guarantee for achieving unified planning and graded management. It is not sufficient to say that the achievement of a comprehensive balance on a national scale is the vital premise for achieving a comprehensive balance within the regions, for at the same time it is also necessary to appreciate that a comprehensive balance within the regions represents an important foundation for, and supplement to, a comprehensive balance on a national scale. If one ignores or departs from a comprehensive balance in each individual region, then it is very difficult to complete and implement a comprehensive balance on a national scale.

## II

The regional economies are an integral part of the national economy. A comprehensive balance within the regions represents a kind of partial balance in a comprehensive balance on a national scale, but as far as each individual region

/Second, the proportional relations between accumulation and consumption within the regional national revenue are conditioned by state redistribution of the national revenue./ According to the existing financial system, the finances of each town and province are not independent systems of private balance. Regardless of whether unified receipts and unified payments or "eating from separate stoves" and proportional contracts are being practiced, as far as the financial revenue and expenditure of an individual region is concerned, there are usually obligations of payment to the state, and is also direct fund allocation from state revenue, and it is often the case that production figures and use figures in each region's national revenue are not the same. Historical experiences tell us that there must be equal attention paid to both accumulation and consumption. As far as the entire country is concerned, dropping the accumulation rate to 25 percent or a little higher would be suitable. At the same time, we must pay attention to ensuring that the distribution of accumulation and consumption does not exceed the total national revenue, otherwise it will lead to imbalances in finances and credit and an instability in market prices. However, as far as one individual region is concerned, the level of its accumulation rate and the way in which the level of consumption is arranged is not only conditioned by state redistribution of the national revenue, but is also directly determined by unified state planning organization and arrangement of national industrial deployment and key and backbone engineering construction projects. Hence, a regional comprehensive balance should not mechanically imitate national proportions between accumulation and consumption, nor can each proportion be maintained without change; rather we should set out from the actual situation in each region and seek proportions between accumulation and consumption which suit local conditions, based on the requirements of expanded reproduction and relevant state policies.

/Third, the above-mentioned two characteristics frequently determine imbalances between regional finances, credit, and goods and materials./ As far as the entire country is concerned, under normal conditions there should be a suitable balance between the state's financial revenue and expenditure and bank credit revenue and expenditure, and in addition there is a basic correspondence between total social requirements created by finance and credit funds and the total amount of goods and materials provided in production and in goods and materials and natural resources from foreign imports. However, as far as each individual region is concerned, complex economic relations which exist between the central authorities and the regions and among the regions themselves, including the effect of such factors as financial receipts and allocation, inward and outward transferal of goods and materials, increases and shrinkage in credit balances, as well as remittance and circulation purchasing power, mean that relations between finances, credit, and goods and materials are often in imbalance. In order to study the suitable relations between one region's social production and its social demand, it is very important to take careful note of the balance between accumulation base funds used for expanded reproduction and the potential amount of means of production which can be provided, as well as the balance between consumption funds and the potential amount of means of subsistence that can be provided. When a region's investments in fixed assets are not in balance with the potential amount of materials and equipment that can be provided, effective measures should be taken or reports should be made to the relevant departments of the central authorities, otherwise state planning will be harmed and this will affect



construction progress and the exploitation of investment results. Similarly, when a region's consumption funds are not in balance with the means of subsistence which can be provided, if effective measures are not taken quickly, a partial shortage of supplies and of some commodities will occur and the people will find themselves with money, but no goods to buy; while consumption funds may not be fully realized, or there will be a partial overstocking of commodities and a slowing down of funds turnover and this will affect the smooth running of social reproduction.

In addition, regional comprehensive balance, in terms of the training and allocation and use of specialized talent and personnel is determined by the quantity of specialized colleges in that region and the distribution of such specialized institutions, and thus it is difficult to achieve self-sufficiency. Rather, each region should depend to a certain extent on the unified arrangement and allocation of national education planning.

### III

The above-outlined major characteristics of a comprehensive balance within the regions determine the tasks of comprehensive balance within the regions, and these are that this balance respects the party's and state's line, principles, and policies and the overall macroscopic strategies of the region, and that there be guarantees for completion of state unified planning, full exploitation of regional superiority, and promotion of the coordinated development of the regional economy, science and technology, and social undertakings. In concrete terms, there are three major tenets:

/First, the primary task for a comprehensive balance within the regions must be to implement and guarantee completion of the production and construction tasks assigned to the region by the state./ For example, Shanghai is an important industrial base in China. During the last 30 years, Shanghai has made its fundamental task in supporting state construction "the export of products, the export of funds, the export of technology, and the export of talent," and in these areas it has achieved considerable success. In this new historical era and on the basis of the strategic deployment outlined at the 12th CPC National Congress and of the spirit of the directive, from comrades of the central authorities, that Shanghai must play the role of an important base and trailblazer in the construction of the four modernizations, Shanghai must take the new road of "pushing on the outside, uniting on the inside, improving, and opening up" and, on the premise of constantly improving economic results, strive to achieve a quadrupling in agricultural and industrial output value by the end of the century, and thus make great contributions to quadrupling.

/Second, under the guidance of state planning, expand good points and curtail bad points and correctly handle relations between the region and other regions and between China and other countries./ As the system of economic management in China changes and as the open-door policy is practiced, the content, sphere, and methods of a comprehensive balance within the regions are all changing in very great ways, and planning work must keep up with these new developments. As far as Shanghai is concerned, the superiority and advantages of the central

city and its seaport can be fully exploited and, on the basis of the principles of specialized coordination and economic rationality, great deal of effort should be expended to develop overseas economic trade and to strengthen domestic economic unity and links. In regional economic planning of a comprehensive balance, the field of vision and content must be gradually expanded to include the Changjiang economic region and other regions and must be expanded to include the international markets. Under the guidance of state planning there must be a development of socialist commodity production and commodity exchange as a result of economic cooperation and links with neighboring regions, while the favorable conditions of port cities should be made use of, overseas funds raised, advanced technology absorbed, raw materials imported, the production of competitive products expanded, and new international markets opened. In this way we may be able to make great leaps forward by making full use of two kinds of natural resources (domestic natural resources and foreign natural resources), by opening up two kinds of markets (domestic markets and international markets), and by studying two kinds of skills (the management of domestic economy and implementation of the open-door policy). If every region studiously develops its advantages and curtails its shortcomings the result will produce a favorable economic trend for the entire country, so that the entire national economy develops even faster and achieves even greater economic results in macroscopic terms.

/Third, implement unified arrangement of economic and social development and the people's livelihood in each region and strive for coordinated development in every aspect./ It is extremely important that a comprehensive balance with the regions ensures thorough organization of urban construction, and of outer regional undertakings, such as science, education, culture, hygiene, family planning, environmental protection, and so on, under the guidance of state planning. This is an objective demand of regional economic development on the basis of proportional coordination and it is also an important guarantee for completing state planning even more successfully and making even better use of regional economic superiority. For example, in the past, when Shanghai's economy was developing, it ignored the unification of urban construction and various social undertakings and the result was a lack of coordination in the relations between the "bones" and the "flesh" and the city became overfull while housing shrank, transportation became overburdened and pollution very serious, and this not only made life very difficult for people in the city, it also seriously affected further economic construction. This was a deep and lasting lesson and in future planning of a comprehensive balance, effective measures must be taken to change this situation.

#### IV

By starting out from the characteristics of a comprehensive balance within the regions and the above-outlined tasks, as far as one specific region is concerned, the planning of a comprehensive balance must focus on achieving a satisfactory balance and links in the following few areas, and at the same time should demand of the state that it set up necessary conditions in these areas for achieving a comprehensive balance within the regions.

/First, ensure a good link between production and finances and rationally define targets for local production development and financial revenue./

Under the existing system, financial revenue is an extremely influential and difficult target in regional planning. One important link in achieving a comprehensive regional balance is to define the rate of growth of regional financial revenue by seeking truth from facts and on the basis of the speed of production growth and actual feasibility of improving economic results. Experience over many years tells us that if there is a gap between the targets for financial revenue ordered by the state and production planning, then regional financial revenue tasks are hard hit and the regions and enterprises are forced to seek all possible ways of achieving production speed and, as a result, product quality is ignored and the scale of construction is blindly expanded, while the light industrial market is squeezed along with people's livelihood and in the end state finance payments are still not achieved. This is bad for a regionally planned comprehensive balance. For example, over recent years there has been a very prominent lack of unity between the local financial revenue targets ordered in an area by the state and production growth. Product value ordered by the state fell annually while targets for financial revenue increased annually and, as a result, an increasing discrepancy occurred between the annual state of regional financial revenue and state planning. Naturally the reasons for the occurrence of such a situation are many-sided, and in subjective terms some regions did not make enough effort in improving enterprise quality, relying on technological advances, and strengthening the development of new products, while management standards fell short and economic results were not sufficiently ideal. In objective terms some regions were considerably affected by such factors as readjustments to product prices and taxes, increases in enterprise profits for retention, and foreign trade export losses and increases in subsidies for imported raw materials. However, another important factor was the fact that annual targets for financial revenue, as ordered by the state, were too high and were not linked to production growth. This situation should be changed.

/Second, ensure mutual links between supply, production, and marketing, and guarantee stable growth for industrial production./

The mutual balance between a region's social production and social demand not only manifests itself in concrete links between the supply and demand of various kinds of major products, it is also necessary to work toward a balance between the total amount of social demand and the total quantity of goods and materials that can be provided and it is particularly important that energy resources and major raw materials be correctly handled and that no gaps are left open. Herein lies the key to ensuring stable growth for industrial production and it is also an important problem which must be answered and solved in a comprehensive balance within the regions.

/Third, strictly control the scale of regional construction and organize relations between the "bones" and the "flesh."/

The scale of regional capital construction and technological transformation must be based on a balance between planning investments within the state budget, regional and enterprise funds, bank credit, and foreign exchange funds, while in

addition there must be ample consideration of the potential strength in goods and materials and construction, so that regions only do what they are capable of doing and avoid and prevent capital construction squeezing production, repairs, and markets and attacking state planning, as well as tendencies toward blind construction. At the same time we must correctly organize regional construction of housing, transportation, and environmental protection, for these are important guarantees for promoting the coordinated development of the regional economy, and they are also an important part of a comprehensive regional balance. If too little is done in this area, then there will be unfortunate effects on a comprehensive regional balance.

/Fourth, ensure a good balance between social purchasing power and the potential supply of commodities, and ensure market and price stability./

The supply of goods necessary for successfully arranging the regional market, the domestic market, and foreign trade exports, otherwise known as "the three markets," represents an important guarantee for successfully organizing a balance between the regional social purchasing power and the potential supply of commodities, and it is also an important factor which cannot be ignored in maintaining a balance in the national market. At the same time, as commercial circulation continues to develop, individual small retailers and the social floating purchasing power constantly increase. When examining the balance between social purchasing power and the potential supply of commodities, in addition to successfully predicting regional purchasing power and the structure of product demand, we must also study information relating to the national market and to international markets and must improve assessments of external floating purchasing power. Only in this way can we ensure a correct balance between social purchasing power and the potential supply of commodities and market and price stability.

In conclusion, a comprehensive balance within the regions is an integral part of a comprehensive balance on a national scale and this national comprehensive balance also represents a vital premise and guarantee for the achievement of a comprehensive balance within the regions. On the basis of the mutually conditioning relations between the two, we must successfully organize planning work for a comprehensive balance in each region, each department, and each sector, thereby making contributions toward the organization of a comprehensive balance throughout the entire country.

CSO: 4006/380



## ECONOMIC MANAGEMENT

### HENAN ENTERPRISES REDUCE DEFICITS IN 1983

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] No 12, 20 Dec 83 pp 6-8

[Article by Yang Xianming [2799 7359 2494], chairman of the Henan Provincial Economic Commission and deputy chief of the Henan Provincial Enterprise Consolidation Leading Group: "Consolidate Money-Losing Enterprises To Improve Economic Results"]

[Text] In the last 5 years, about 30 percent of the industrial enterprises in Henan Province suffered losses. In 1982, 728 enterprises, or 32 percent of all enterprises suffered losses. Their deficits came to 199.9 million yuan. These enterprises eat up one-fourth of the profits gained by their counterparts every year. This is a major cause of poor economic results in Henan Province.

Since the beginning of 1983, the provincial economic commission and government have decided to consolidate money-losing enterprises, demanding that efforts be made to reduce deficits by 60 percent in 1983, keep the total deficits under 80 million yuan and assign a deputy governor to take care of this work.

After investigating, classifying and studying different situations and specific problems of all enterprises, a series of measures have been adopted and remarkable results have been achieved by considering profit increase and deficit reduction as a key to enterprise consolidation. In the first 9 months of 1983, the number of money-losing enterprises in Henan Province declined 52.4 percent from 725 to 345, and their deficits declined 45.4 percent from 123.5 million yuan to 67.4 million yuan compared to the corresponding period of the previous year. To achieve this, we mainly strengthened leading bodies, imposed pressure, implemented policies, provided support, ascertained responsibility and conducted supervision. Our concrete measures are readjusting, restructuring, contracting, dividing, closing, supervising, supporting, reforming, awarding and pressuring.

"Readjusting" means to readjust the leading bodies of money-losing enterprises. Weak leadership is a major cause of enterprise deficits. For example, a pharmaceutical plant in our province used to make more than 1 million yuan of profits a year. In recent years, because of the disunity between the plant's secretaries and managers, it lost 1 million yuan

in 1981 and 780,000 yuan in 1982. Therefore, in consolidating money-losing enterprises, we first strengthened their leading bodies. We resolutely readjusted the position of those leading cadres who have no professional skills, who have no ambition, who are in a state of inertia, who are used to eating out of the "same big pot," who form factions to carry out dissension or who have no interest in work. The provincial government has clearly stipulated that "if enterprises fail to switch deficits to profits in the given time period, their principal leading cadres must either be removed from their posts immediately or resign on their own. Their vacancies should be filled with better qualified persons hired through public notices, chosen by democratic elections or assigned by higher levels. These cadres must be able to start the ball rolling." Anyang City had 20 enterprises operating at a loss in 1982. Seventeen of them have changed leading bodies so far. After assuming office, most new leaders have been confident and vigorous. They have volunteered to take responsibility, mobilized the masses, adopted various measures focused on reducing deficits and scored marked achievements. From January to September in 1983, the number of money-losing enterprises in Anyang City was reduced 70 percent and their deficits reduced 88.6 percent as compared to the corresponding period of 1982. The Anyang No 2 Bicycle Plant has been running at a loss for a long time. It lost 870,000 yuan in 1982 and 147,000 yuan in the first quarter of 1983. In April the city CPC committee readjusted the leading body of the plant. On the day they assumed office, the new leaders vowed to take responsibility, saying that they were determined to fight for 3 months and switch deficits to profits and that should they fail to do so they would resign on their own. They also agreed to live in the plant and lead the masses in working toward this goal. In the second quarter of 1983, the plant successfully switched deficits to profits and made a net profit of 70,000 yuan. "Readjusting a few cadres has saved a whole plant," some staff and workers of the plant said happily.

"Restricting" means to set a deficit ceiling, a deadline for halting deficits and a limit for producing goods that results in large deficits. Early this year, in accordance with the 80 million-yuan deficit ceiling imposed by the provincial government on industrial enterprises, we set different ceilings for different levels and transmitted them to all prefectures, cities, offices, bureaus and money-losing enterprises. We also clearly stipulated that if they surpassed their ceiling, they would not have any refund or subsidies from the state. This has spurred money-losing enterprises to adopt measures to try in a hundred and one ways to keep their deficits below the ceiling. For example, the industrial enterprises of Jiaozuo City lost 3.81 million yuan last year. This year the provincial set a 2.03 million-yuan ceiling on Jiaozuo City. After analyzing money-losing enterprises one by one, estimating their potential, formulating measures and transmitting targets, Jiaozuo City reduced the deficit ceiling to 1.6 million yuan and effectively controlled the deficits of its enterprises. In the first 9 months of 1983, Jiaozuo City actually lost only 940,000 yuan, 61 percent less than the corresponding period of 1982. In order to reduce deficits we also controlled the output of those goods in oversupply that cause great losses and that do not sell very well, such as bicycles and sewing machines made in Luoyang and Kaifeng cities.

"Contracting" means to have small money-losing enterprises with poor management below the county level to sign contracts with collectives and individuals who then assume sole responsibility for the profits and losses of the enterprises and who are allowed to share profits according to a set ratio. Luohe City had nine enterprises operating at a loss in 1982. After contracting them to collectives and individuals, Luohe City eliminated all deficits by August 1983. The Wuyang County Chemical Fertilizer Plant used to lose money all the time. It lost 450,000 yuan in 1982. After six engineers and technicians took over the management of the plant on a contract basis, they eliminated all deficits in just 4 months by mobilizing the masses, improving management and technology and reducing costs of production. The plant made more than 400,000 yuan of profits by September 1983.

"Dividing" is to divide those money-losing enterprises with low-level mechanization and poor management into different units according to their specialty and have these units practice independent accounting and assume sole responsibility for their own profits and losses so as to break the "big pot" system and arouse their enthusiasm. The Xuchang City Woodwork Plant suffered deficits for 3 consecutive years. It lost 370,000 yuan in 1982. In the beginning of 1983 we divided it into three smaller plants and had them practice independent accounting. Since then, these plants have strengthened management and economic accounting and earned 180,000 yuan of profits so far.

"Closing" means to resolutely close those money-losing enterprises which cannot sell their products, cannot be merged into other enterprises or cannot make profits in the near future. More than 30 such enterprises have been closed in 1983. Their employees have been given a certain amount of living allowances and allowed to look for new jobs while maintaining their original job titles. For example, Xiping County closed and suspended five money-losing enterprises in the first half of 1983 and eliminated all deficits in July 1983.

"Supervising" means to regularly review the implementation of all deficit reduction plans and publish monthly reports on the achievements of all prefectures and cities and all trades and professions in eliminating deficits. Every provincial industrial and communications work conference has discussed the situation of deficit reduction and put forward concrete demands. Some cities including Zhengzhou have also organized economic commissions, finance departments and departments in charge of enterprises to form special work groups to consolidate money-losing enterprises. These work groups have investigated money-losing enterprises one by one, analyzed their problems and helped them devise concrete measures to wipe out their deficits. They have also supervised and encouraged them to carry out these measures and spurred them to change their deficits into profits.

"Supporting" means to give necessary support to those enterprises which have the ability to eliminate deficits. Our past policy was to give no bank loans and subsidies to enterprises if they had deficits. This policy caused some enterprises to suffer greater and greater deficits, because they could have wiped out their deficits if they had some money to adopt

measures. In 1983, we stipulated that banks should give proper amount of loans to those enterprises which can sell their products, which can be merged into other enterprises or which can be revived. Departments in charge of enterprises should try to help these enterprises develop production and eliminate deficits. The Zhengzhou City Financial Bureau granted 1.3 million yuan of circulating funds to help the production of six money-losing enterprises, including the Zhengzhou Zhongyuan Aluminum Plant, which had serious financial problems but were able to sell their products. This revived these enterprises and reduced their deficits by 4.1 million yuan in the first 9 months of 1983. The Zhengzhou Automobile Plant was a large money-losing enterprise. In addition to its numerous debts, it lost another 3.5 million yuan in 1982. With the support of the city government and the help of departments concerned, this plant developed readily marketable products, disposed of stockpiled goods, solved financial problems and carried out cooperation with other enterprises. By the end of July, this plant not only eliminated all deficits but also made 41,000 yuan of profits.

"Reforming" is to reform the product mix and transform the technology of enterprises if their deficits are caused by irrational equipment or product mix or backward technology. This is the first step to eliminate their deficits. For example, small nitrogenous fertilizer plants in our province used to lose more than 10 million yuan a year. After their subsidies were cut off, these enterprises concentrated on technical transformation and equipment renewal in enterprise consolidation. From January to September, the number of these money-losing enterprises declined from 50 to 15, and their deficits declined from 11.3 million yuan to 4.5 million yuan. The Kaifeng No 2 Refractory Material Plant could not sell their products and suffered losses for 3 consecutive years. In 1983, the plant hired a technician as plant manager from a glass and ceramics plant in Jiangsu Province. This technician reformed the product mix of the plant, developed six new products including sintered zirconium and corundum bricks and changed the plant from selling a single outdated product to selling a variety of valuable high-quality products to over 20 provinces and municipalities. This enabled the plant to eliminate all deficits in just 3 months. The Hebi Refractory Material Plant lost 2.7 million yuan in 3 years and almost went bankrupt. In 1983, in view of the backward technology and poor quality of the plant, it formed a work group and mobilized the masses to solve key scientific and technological problems. They discovered the best granule-matching technique and increased the rate of standard products from 45 percent to 85 percent. From January to August of 1983, this plant increased its profits by 626,000 yuan compared to the corresponding period of 1982.

"Awarding" means to formulate award policies to encourage enterprises to reduce deficits and increase products. We have stipulated that those money-losing enterprises which have reduced their deficits should be allowed to retain all or a certain percentage of their profits for their own use; those which have eliminated all deficits and begun making profits should be exempted from this year's income taxes; those which have successfully kept their deficits below the deficit ceiling should be given fixed



quota subsidies; those which have fulfilled deficit reduction plans should be given a proper amount of bonuses and enterprise leaders should be given greater bonuses than other employees. These measures have played a major role in encouraging enterprises to reduce deficits and increase profits.

"Pressuring" means to impose a certain amount of pressure on money-losing enterprises to force them to reduce deficits. They must not be allowed to have an easy time. They must be treated differently from other enterprises. If money-losing enterprises fail to fulfill their deficit-reduction targets, they will not be allowed to retain profits, they have to use their special funds to pay for their surplus deficits, their staff and workers will not be given bonuses and raises and their leading cadres will be deprived of a certain percentage of their basic pay. If prefectures, cities and counties fail to keep their deficits below their deficit ceiling, funds and appropriations for departments at all levels under their jurisdiction will be deducted. As for those enterprises which have failed to eliminate their deficits within the given time period, some should be closed and others should be taken off the state payroll. The Yucheng County Chemical Fertilizer Plant suffered losses for 12 consecutive years. Its accumulated deficits amounted to 6.12 million yuan, equivalent to the investment for two plants. In 1983, Shangqiu Prefecture and the provincial chemical industry office warned this plant that if it failed to eliminate all deficits by the end of 1983, it would be closed in 1984. Such a mandatory stipulation made the plant's staff and workers feel that they might lose their "iron rice bowl," therefore, they started making concerted efforts since May to enact "10 rules and regulations of the plant," "7 targets for workshop evaluation," and "13 rules for labor discipline." By doing so, they reversed the chaotic situation in production, management and operation, reduced the per-ton production cost of ammonia by 78 percent and earned 212,000 yuan in just 3 months--May, June and July. After balancing off the deficits in the first 4 months of 1983, this plant made a net profit of 9,000 yuan. Some employees of the plant remarked humorously on this situation: "Laziness causes deficits in 12 years and pressure eliminates them in 3 months."

Since our province has concentrated on the work of reducing deficits and increasing profits, the economic results of overall industrial production have been markedly improved this year. In the first 9 months of 1983, the total provincial industrial output value increased 8 percent compared to the corresponding period of 1982; total profits increased 28.3 percent; and the profits handed over to the state (including income taxes) increased 18.2 percent. This shows that the growth of profits was faster than the growth of output value. The industrial enterprises of 20 counties and cities have now cleared of all deficits.

Although our province has scored some achievements in 1983, many problems still exist. Therefore, in the fourth quarter of 1983 we should continuously concentrate on the work of reducing deficits and increasing profits. At the same time, we should adopt three new measures. The first is to convene a work conference on reducing deficits and increasing

profits in mid-October to sum up experiences and implement the provincial deficit reduction plan. The second is to concentrate on large money-losing enterprises, analyze the cause of deficits for each enterprise that has over 200,000 yuan of deficits and draw up measures to help them implement their deficit reduction plans. The third is to organize group consultations of experts on the problems of large money-losing enterprises in November. We must keep our deficits under 80 million yuan in 1983 and fulfill the task of reducing deficits by 60 percent set forth by the provincial CPC committee and the provincial government. On this basis, we should reduce our deficits by 30 percent in 1984, minimize policy-related deficits and strive to fulfill the goal of eliminating operational deficits in 1985.

12302

CSO: 4006/311

TECHNICAL TRANSFORMATION OF LIGHT INDUSTRY DISCUSSED

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 12, 25 Dec 83 pp 34-36

[Article by Lu Zhifen [7120 1807 1164] of the Shanxi Provincial Light Industry Office: "A Preliminary Approach to the Issue of Technical Transformation in Light Industry"]

[Text] The 12th CPC Congress set forth a magnificent goal striving to quadruple total industrial and agriculture annual output value by the end of this century on the prerequisite of continuously improving economic results. But what is more important is to expand the production capacity and improve the economic results of existing enterprises by carrying out technical transformations.

To implement this principle, the state has provided a considerable amount of money for the technical transformation of existing enterprises in the past few years. According to statistics, since 1980 the first light industry department of Shanxi Province has used 75 percent of the capital construction fund for technical transformation projects, equivalent to 38 percent of the total amount of state investments in the capital construction of Shanxi's first light industry department before 1979.

Three consecutive years of technical transformation has increased the production capacity of many enterprises under the first light industry department of Shanxi Province. This has to a certain extent satisfied the market demand for light industrial products and alleviated the intense situation in which some light industrial products are supplied only by coupons and some are always out of stock. At the same time, the adoption of advanced production techniques and technical equipment for certain projects has enabled enterprises to improve their quality and technology and score better economic results. However as far as the whole province is concerned, most technical transformation projects are still based on backward technology, techniques and equipment. Most renewed equipment items are still reproduced "antiques" and a continuation of backward measures to increase the amount of backward equipment just to fill the gaps. On the pretext of tapping potential, some enterprises actually engage in expansion. As we understand that this kind of "technical transformation" has cost a large amount of money, less than one-third of such money has really been used to transform and improve technology. This situation has drawn the attention of departments concerned, but it has not changed

substantially. We need to conscientiously study and solve many problems in order to carry out technical transformations of enterprises and popularize techniques applicable to our country and widely adopted by developed countries in the 1970s or early 1980s.

1. We Should Further Clarify the Guiding Ideology for Technical Transformation  
Improving economic results is a prerequisite for achieving the goal of striving to quadruple total industrial and agricultural annual output value set forth by the CPC Central Committee. Since technical transformation is a major measure to ensure the fulfillment of this goal, improving economic results should also be considered a prerequisite for technical transformation.

Due to the influence of "leftist" ideology, we used to elaborate only on output and ignore the improvement of economic results when discussing technical transformation. Even today quite a few enterprises remain content with things as they are as long as they can increase their output value, sell their products and manage to make ends meet. Therefore, their purpose of carrying out technical transformation is to double their output and blindly increase their production capacity on the basis of backward technology. Expanding the scale of production by merely increasing the number of productive elements is expansion of reproduction. This may double the output but cannot create high economic results because of backward production techniques, inefficiency, poor quality and high consumption. It worked a few years ago because light industrial production then was in short supply and the contradiction was between quantity and demand. Therefore, there was no need to worry about products being unmarketable. Although economic results were poor, it was not impossible to increase taxes and profits as long as there was output. However, things have changed. With the increasing variety of light industrial products, consumers now have a wide range of choices. Buyers are gradually taking over control of part of the light industry market which was originally under the control of sellers. The contradiction between quantity and demand is now changing into a contradiction between quality, variety and prices and demand. Output is no longer considered a trump card for competing enterprises. It has been replaced by high quality, low prices, great variety and good service. Therefore, technical transformation should not be focused on expanding enterprises externally. It should be focused on consolidating enterprises internally so as to improve their quality. In other words, enterprises should improve technology and the quality of productive elements by carrying out technical transformation. On this basis, they should further increase their ability to survive, develop and handle emergency situations.

2. We Should Clarify the Scope of Technical Transformation

To get a clear idea about technical transformation, we should not only draw a clear line of demarcation between technical transformation and capital construction; we should also distinguish technical transformation from general equipment renewal and technical measures. We have already drawn a line between technical transformation and capital construction, but we are not clear about the demarcation line between technical transformation and general equipment renewal and technical measures. We contend that carrying out general equipment renewal through the reproduction of "antiques" should not be considered technical transformation. Only "renewing and updating equipment sim-



ultaneously" or replacing old and outdated equipment with advanced equipment that has better functions and greater efficiency can be considered technical transformation. Those technical measures which use backward equipment to fill the gaps in weak links of production should not be considered technical transformation. Only those measures which use advanced equipment that has better functions and greater efficiency to strengthen the weak links of production can be considered technical transformation.

Current "equipment renewal and technical transformation funds" can be used for a variety of purposes. They can be used for technical transformation as well as general equipment renewal and technical measures. Although the latter is also important, it cannot replace the former. Therefore, it is very important to clarify the definition of technical transformation to ensure that the "equipment renewal and technical transformation fund" is mainly used for those technical transformation projects that improve technology.

### 3. We Should Create Essential Material Conditions for Technical Transformation

Most of our existing light industrial enterprises have backward production techniques and worn and torn equipment which urgently needs to be renewed because it has low efficiency and high consumption. About 30 percent of light industrial enterprises in Shanxi Province are joint state-private enterprises transformed from former bureaucrat capitalist and private enterprises after liberation. Most equipment owned by these enterprises was made in the 1930's and 1940's. These enterprises were later expanded and transformed, but their original equipment has not been completely renewed. Some enterprises are still using equipment made in 1893. Enterprises established after 1958 are also using products of the 1950's or improved products based on the 1950's model. Therefore, we may say that our equipment situation is "in threes and fours." Using the equipment made in the 1930's to produce products of the 1980's is obviously impossible. This is precisely the problem we want to solve by carrying out technical transformation in enterprises and by replacing old and outdated equipment with advanced technology and equipment. However, advanced technology and equipment is an essential material condition for carrying out technical transformation. If we fail to create such a material condition, carrying out technical transformation will be like "making bricks without straw."

At present, many technical transformation projects are based on backward production techniques and technical equipment. Some equipment is so worn out that it must be replaced immediately. However, since no advanced equipment is available, some enterprises are forced to reproduce "antiques" to satisfy their pressing needs. Some enterprises have to use original equipment to fill the gaps in the production line because no efficient equipment is available. Even some newly established enterprises have to continuously adopt technology and equipment of the 1960's level because no advanced equipment matching the international level is available. This situation runs counter to the needs of our times. A fundamental cause of this situation is that our scientific research and equipment manufacturing units cannot provide advanced technology and equipment to enterprises in a timely manner. Therefore, we lack essential material conditions for carrying out high-level technical transformation in a comprehensive manner.

To change the backward situation in our industry, a key to provide advanced production techniques, technology and equipment for technical transformation. Judged by the overall situation, a top priority in technical transformation is to concentrate on technology transfer, scientific research and manufacturing. To achieve industrial modernization in a big country such as ours, it is necessary to import modern technology, techniques and equipment from other countries. However, because our economic strength is limited and imported equipment is not immediately applicable, our principle is to import a small amount of equipment to be used as a model for domestic mass production after intensive study. We should also improve and perfect such equipment in the process of utilization. To do so, we must strengthen our scientific research and equipment manufacturing forces. Only when these departments are modernized can they provide material conditions for carrying out technical transformation in industrial enterprises throughout the country.

#### 4. We Should Study and Locate the Source of Funds Needed for Technical Transformation

The source of funds is a particularly important issue in the current technical transformation work of light industrial enterprises. Generally speaking, enterprises should use their own depreciation, overhaul and enterprise development funds for technical transformation. However, judged by the actual conditions in the industrial enterprises of our country, different trades and professions have different situations. Heavy industries and large enterprises have more depreciation and overhaul funds than other industries and enterprises. One characteristic of light industry is that it has many medium and small enterprises. Most of these enterprises have very few fixed assets and little depreciation and overhaul funds. Their plants are mostly old and shabby. Their equipment is backward. They urgently need to carry out technical transformation, but they do not have such money. Take the first light industrial department of Shanxi Province, for example. Each of the 280 enterprises has less than 55,000 yuan of depreciation and overhaul funds. With this money, these enterprises can barely continue simple reproduction, not to mention technical transformation. In the past few years, in order to support the development of light industry, the state has issued loans for technical transformation in addition to state appropriations. Such loans have provided over half of the funds needed for technical transformation in the past 3 years or so. This has indeed promoted light industry and technical transformation and improved economic results. However, whether we can endlessly extend technical transformation loans is still open to question. First of all, the utilization of loans is conditioned by the ability of repayment. The profit of different trades and professions is different due to various reasons; therefore, their repayment ability is also different. In the past few years, loans were mostly used by enterprises with large profits to expand their production capacity. Since last year, light industrial products have begun to change from a "seller's market" to a "buyer's market." This has initiated a new change in the supply and demand situation. In order to adapt to market changes, light industrial enterprises need to adopt measures to improve quality and increase new designs and varieties. However, the results of such measures usually benefit society. As far as enterprises are concerned, such measures can only help them solve their stockpiling problems. They cannot help enterprises increase profits or income by a large margin. Thus, if these enterprises want to use loans, they will be unable to pay them back.

Second, generally, technical transformation can improve economic results. However, the input and output of technical transformation do not always constitute a direct ratio. For example, if a plant is not expanding and only wants to replace a papermaking machine which has a 10-ton daily production capacity with one that has a 15-ton capacity, it will have to pay for the production capacity of 15 tons per day but its actual production capacity will increase only 5 tons per day. Therefore, using the economic results of 5 tons to pay for the investment of 15 tons is obviously impractical. Third, measures necessary for simple reproduction, such as general equipment renewal, plant remodeling, labor protection and disposal of the three wastes, cannot help enterprises increase profits. Some enterprises which have solved such problems by using loans are now unable to pay their debts. Some enterprises do not have money of their own to solve these problems, nor are they qualified to use loans. These long-standing problems have affected the normal production of these enterprises. Therefore, we contend that in order to do a good job in technical transformation of light industry, we should consider raising the depreciation rate of fixed assets and readjusting the prices of products if they are unreasonable. In accordance with different situations we should provide technical transformation funds through different channels such as loans, appropriations and the combination of loans and appropriations. In accordance with different situations, we should also offer different loans, such as low-interest loans, interest-free loans and loans of different time periods. Only by doing so can we quicken the tempo in the technical transformation of light industry.

#### 5. We Should Further Reform the Management System of Technical Transformation Plans.

According to the current plan-management system, technical transformation projects are decided and transmitted by economic commissions at various levels. This system can cause decentralization of funds and excessive construction because it emphasizes balance between regions and gives too much consideration to all fields. Technical transformation is extremely complex. Departments in charge of different industries all have their own specialized and technical personnel. These personnel master the scientific and technological information of their own departments. They understand domestic and foreign technological situations. They are responsible for devising technical transformation plans for their departments. However, they do not have the authority to decide technical transformation projects for enterprises subordinate to their departments. This is ridiculous. We think that the only responsibility of economic and planning commissions at all levels is to take care of the overall management of technical transformation funds and to set investment control targets for all industrial departments. Concrete technical transformation projects should be examined and approved by departments in charge. An investment ceiling can be set for each department in charge. Investment projects below the ceiling can be approved by departments in charge, and projects above the ceiling should be approved by economic and planning commissions. Efforts should be made to exercise decentralized management, integrate technology and economics and combine responsibility with authority.

To better strengthen the planning work of technical transformation, quickly master advanced technology at home and abroad, understand its trend of development, and formulate technical transformation policies and standards for every industry, we should first establish a number of model plants by carrying out technical transformation and technology transfers. This is easier for us in concentrating funds and summing up experiences. We now lack funds, advanced technology and experience. Thus, it is not feasible for us to carry out technical transformation in a comprehensive manner. If we rush headlong into this, we will be unable to improve our technology and equipment. We will lose money, tire people and get only half the result with twice the effort.

In sum, technical transformation must be focused on technological improvement. This is the only way to change the backward situation in our industry and achieve better economic results.

12302

CSO: 4006/314



## ECONOMIC MANAGEMENT

### OBSTACLES TO TECHNOLOGICAL IMPROVEMENT REVIEWED

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 12, 25 Dec 83 pp 32-34

[Article by Liu Rongcang [0491 3310 3318] of the Institute of Finance and Commerce Economics under the Chinese Academy of Social Sciences: "Economic Root Causes of the Obstruction of Technological Improvement and Economic Measures That Need To Be Adopted"]

[Text] Promoting the technological improvement of enterprises and gradually transferring all economic sectors to a new technical foundation is not only a crucial strategic policy for overcoming China's problems caused by a serious shortage of funds, energy and materials now and for some time to come, but also a crucial strategic policy for revitalizing China's economy and fulfilling the economic development goal of quadrupling total industrial and agriculture output value.

China's long-standing problems of poor economic results, slow capital turnover, high material consumption and low labor productivity are, of course, caused by many factors. A major factor is outdated, backward production technology and techniques and slow improvement of science and technology for economic construction. because improving technology is a major way to increase labor productivity and economic results. What are the economic causes of the obstruction of technological improvement in China? Generally, they are as follows:

1. Owing to weaknesses in the economic management systems, especially over-centralized control and undue interference by the state, enterprises depend on the state for everything. Their major operational problems are solved by higher levels. The state assumes sole responsibility for all consequences. Enterprise leaders, staff members and workers receive remuneration according to specified standards. Such a pattern and the ossified or semiossified of the responsibility system has made enterprises lose their sense of responsibility system has made enterprises lose their sense of responsibility and subjective initiative for continuously improving production technology to increase labor productivity and economic results. This has to a certain extent made technological improvement a unilateral task for the state and departments in charge at higher levels, while leaving enterprises in a passive, waiting and obedient position.

2. Due to the former practice of overemphasizing output value and the output growth rate and because total output value has been considered a major target for evaluating enterprises and a basic criterion for judging their management, enterprises have no time to take an interest in improving production techniques and developing products; nor are they willing to take the risk of possible failure in fulfilling the output targets assigned them by higher levels for the sake of technological renovation. All they need to do is increase production in accordance with the direction of production and the variety of products specified by departments in charge at higher levels. Therefore, the older a product is, the easier it will be for enterprises to operate the product's technical equipment and master its production techniques and the more possible it will be for them to fulfill the product's output value plan and to win the honorable title of advanced units. When they do carry out technical renovation, they aim at increasing the quantity and output value of old products. Consequently, their products remain unchanged for several decades, and their production techniques do not improve or improve slowly for a long period of time. In the real economic life of China, there are some advanced S & T achievements and renovation projects which can obviously increase labor productivity and product quality by a large margin, but related enterprises just do not want to adopt them. This is a clear example of China's problem in this regard. For example, since construction units charge for management expenses in accordance with the amount of construction work involved, they do not like to adopt efficient new technology or equipment that can speed up construction and conserve building materials and energy because it can also reduce the amount of construction work and management expenses. As for the technical transformation and renovation projects assigned by higher levels, some enterprises also try to procrastinate and decline by using all sorts of excuses. They are afraid to disrupt the original technological process and traditional production and management methods and affect the fulfillment of their output value plan and their production growth rate.

3. Owing to a lack of necessary economic means, policies and measures, especially the disintegration of power, responsibility and interest, enterprises do not have the external economic pressure as regards technological improvement; nor do they have internal economic motive force. In other words, they lack a sense of urgency and competitiveness for improving technology. They are not motivated to improve technology because they cannot benefit from it. It makes no difference whether they pay attention to it or not or whether they do a good job in it or not. In other words, the practice of eating out of the same big pot still exists in regard to technological improvement. For a long period of time, we have failed to establish the basic guiding ideology of relying on advanced S & T in economic construction. Therefore, many factors unfavorable to technological improvement still exist in the utilization of economic means and the formulation of economic policies. This is why enterprises cannot do what they want to do and often run into obstacles while engaging in technological improvement. For example, we do not have the necessary policies governing the supply of funds and the compensation of expenses for technical renovation, transformation and development. Our equipment overhaul system includes inflexible rules preventing equipment undergoing overhauls from increasing in value and changing its location and form. Financial and credit departments do not offer corresponding support, favorable treatment and policies to encourage the development of technology and products. Indi-

dividual enterprises lack the coordination of relevant enterprises and compatible production conditions and technical equipment for improving technology. We have many problems concerning the prices of new products and tax policies.

What kind of economic measures do we need to adopt to promote and encourage the technological improvement of enterprises in view of these situations? I believe we should adopt necessary administrative means. For example, on the basis of investigation, study and doing a good job in technological and economic forecasting and in light of the current level of productive forces and their trend of development in the future, we should set time limits for the utilization and renewal of different kinds of technical equipment and create laws for eliminating certain outdated technology. We must also concentrate on enacting effective reforms in the economic system, economic plans and economic policies by adopting the following economic measures:

First of all, we should create conditions and facilitate the technological improvement of enterprises as regards the economic management system. Judged by the practice of our country in the past few years, major problems still exist. Judged from the microeconomic point of view, enterprises lack the autonomy to carry out technical transformation and improve technology. There are two main expressions. 1) The "mothers-in-law" of enterprise at different levels heavily interfere in the technical transformation and technological improvement. There are too many obstacles. The phenomenon of blind command persists. Enterprises cannot really exercise their autonomy. Specialized coordination and technical integration are often impeded by the division and restriction of different departments and regions. Some irrational old rules contravening the technological improvement of enterprises still bind the minds of enterprise leaders and make them step back. The CPC Central Committee pointed out a long time ago the two major weaknesses in our former economic system. One is that production is divorced from demand. The other is that enterprises are not encouraged to improve technology. We should also take these weaknesses into account in considering the overall policies and concrete measures for reforming the system in the future. We might say that the first step in expanding the autonomy of enterprises is to properly expand their power to renew and improve technology. Therefore, we must adopt effective measures for reforms in this regard and give enterprises a genuinely free hand in technological improvement. 2) Judged from the macroeconomic point of view, enterprises do not have proper organizational management and guidance for technological improvement. Most particularly, individual enterprises do not have a clear direction and objectives for technological improvement. They do not know which technology and equipment they should choose, nor do they know which technical problems they should work on. A major cause for this is the lack of unified, feasible plans and measures for different industries to carry out technical transformations. This is why enterprises have no targets. Therefore, our priority is to establish a management system which suits the needs of technological improvement in enterprises and quickly formulate an overall plan and individual plans for individual industries. Under the guidance of these plans, we should boldly expand the autonomy of enterprises and give them a green light in technological improvement. Only by so doing can we avoid overcentralization and confusion and transfer all economic sectors to a new technical foundation. Merely emphasizing the expansion of autonomy

without active guidance can cause confusion. Merely emphasizing management without overall planning can easily cause errors of overcentralization and blind command. Only when we combine the two can we establish a system conducive to upholding the correct orientation of improving enterprise technology and achieve good social and economic results.

Second, we should conduct major reforms in certain fields of the existing planning system, especially the enterprise evaluation system, which are unfavorable to technological improvement. Theory and practice prove that plans and targets based on output value are not only detrimental to the reduction of consumption and production costs and the improvement of product quality but also to the technological improvement of enterprises. Therefore, future state plans and targets should not only include the tasks of developing new products and adopting and popularizing new technology, but also include the requirements of eliminating outdated products and backward technology. These tasks and requirements should be clearly specified as major targets for evaluating enterprises. Such comprehensive evaluation should be linked with the growth of enterprise funds and the economic interest of enterprise, staff members and workers. Those enterprises which have promoted production and achieved greater economic results by relying on advanced S & T should be given more greater economic benefits compared to the average enterprise. Those enterprises which have made no progress or have always lagged behind in technological improvement should not be allowed to benefit from the state plan, eating out of the same big pot and holding an iron rice bowl. This is the only way to enable enterprises to have both external economic pressure and internal economic motive forces. It is also the only way to enable enterprises to discover an endless resource of vitality from the continuous improvement of technology.

Third, we should review, formulate and revise existing economic policies in accordance with the principle of spurring and encouraging enterprises to improve technology. For example, with regard to finance, we should further study and review existing investment policies and capital insurance policies suited to the improvement of technology and the development and trial production of products. We should adopt new technology award policies, tax policies suited to boosting new products and fixed-asset renewal and overhaul systems conducive to improving technology. Regarding banking, we should study credit and interest policies suited to the promotion of technological improvement. With regard to prices, we should study policies implementing the principles of pricing according to quality and higher prices for higher quality and policies imposing penalty prices on inferior, outdated products. In our economic policies must become an effective means to encourage technological improvement. By no means should they become obstacles to technological improvement.

12302

CSO: 4006/314



## ECONOMIC MANAGEMENT

### JINGJI YANJIU ON SALE-CAPITAL RATE-BASED LOANS

HK291510 Beijing JINGJI YANJIU in Chinese No 2, 20 Feb 84 pp 72-74, 57

[Article by Zhu Yukun [2612 5940 2492] of the Jiangsu Provincial branch of the People's Bank of China: "Further Popularize the Method of Providing Loans According to Sale-Capital Rates"--September 1983]

[Text] To persist in gradually reforming the method of providing bank loans under the leadership of the departments concerned by way of further popularizing the method of providing loans according to sale-capital rates [Xiao Shou Zi Jin Lu 6906 0786 6327 6855 3764] coupled with floating interest rates is generally considered an important measure for encouraging enterprises to strengthen and perfect the responsibility system for using capital, changing the situation in which enterprises possess excessive working capital and improving the economic effect of banks in providing loans. With the method of providing loans on the basis of the sale-capital rate we will be able to mobilize the initiative of the management staff of enterprise finance and accounting so that they can manage well the circulation of capital and will make banks further display their advantages in managing the working capital of enterprises in a unified way.

#### I.

The sale-capital rate represents an important criterion for checking the efficiency in the use of working capital. It also refers to the relations between the amount of working capital possessed by enterprises and the sale volume of the commodities of those enterprises and it is manifested in the average amount of working capital possessed per 100 yuan income from commodity sales. A lower sale-capital rate means that the amount of working capital possessed per 100 yuan income from the sale of commodities by enterprises is lower, and this situation means a better economic effect. The formula for the sale capital rate is:

$$\text{the sale-capital rate} = \frac{\text{the average amount of surplus working capital possessed during the report period (annual \& quarterly)}}{\text{commodity sale income during the report period (annual \& quarterly)}} \times 100\%$$

To control loans through sale-capital rates means that the banks must act according to the state requirement for speeding up the circulation of working capital and provide loans to enterprises on the basis of the level of enterprise average sale-capital rates and through checking the amount of working capital as defined by planning. The monthly interest rate on such loans is 6 percent. In addition, the banks will also check the implementation of sale-capital rates by enterprises and subsequently take the necessary measures. For example, with regard to loans that have surpassed the defined and planned working capital, the banks will resort to a floating interest rate plus a fixed interest rate, with the floating rate fluctuating within 20 percent. The banks will decrease the interest rate for the enterprises that have overfulfilled the goal of speeding up the circulation of working capital and have a lower sale-capital rate. This measure is taken as a reward for such enterprises. Contrariwise, the banks will increase the interest rate for enterprises with higher sale-capital rates and which possess more working capital. The increased rate is covered by the profits retained by the enterprises.

The method of providing loans on the basis of sale-capital rates has the following features. First, the banks have broken away from the old method of providing "fixed quota" and "over fixed-quota" loans. With this method, bank loans for enterprise working capital are no longer based on the amount exceeding the value of the goods and materials of the borrowing enterprises; nor are the loans based on the pace of the consumption by the enterprises concerned. That is to say, the amount of the loan is based on the situation of the commodity sales of the enterprises and on the capital possessed by the enterprises as well as on the circulation of the capital of these enterprises. In this way, the contradiction between production and fixed-quota loans has been resolved to strengthen the lever role of credit. Second, the principle of providing the loans is that of whether the commodities produced by the enterprises are marketable and whether these commodities are in a position to realize their use value. Thus, through providing loans, the banks are in fact involved in production to regulate both production and distribution through the economic levers of credit and interest rates, so as to promote the harmonious development of the national economy. Third, the banks have been able to closely combine credit with interest rate as a measure to encourage enterprises to consolidate and perfect the responsibility system of using capital. As a result, enterprises have external pressure and internal motive force. The banks will check the situation of the fulfillment of the sale-capital rate by enterprises and the possession of the defined working capital. The enterprises with lower sale-capital rates and which possess lower amounts of working capital will have their interest rates decreased, while those with higher sale-capital rates and which possess more working capital will have their interest rates increased. The payment of the increased or decreased interest rates will be included in enterprise funds and will be directly linked with the economic interests of the enterprises and their workers and, in this way, the production of the enterprises which represent the most basic economic cells will become more active.

## II

To further popularize the method of providing loans on the basis of the sale-capital rate coupled with a floating interest rate represents an important measure in reforming bank credit and breaks away from the old system and method.

It also represents a major change in guiding ideology in bank credit work and has displayed a tremendous role in changing the guiding ideology in enterprises production and management.

First of all, this method has promoted the production of enterprises, expanded the range of the sale of commodities, and realized the benign cycle in production according to the needs of society.

In the past, the method we used in the supply and management of working capital was basically copied from the method of the Soviet Union in the 1950's. According to this method, enterprise working capital is divided into two categories, with fixed-quota working capital being checked and allocated by financial departments and over fixed-quota working capital being resolved by the banks through loans. This method has many defects and the division between "fixed quota" and "over fixed-quota" is very far from being scientific. With this method, it is often the case that when enterprises have to increase their working capital because of the development of their production, the financial departments do not allocate the fixed-quota capital in full; when the enterprise fixed-quota capital is excessive, the financial departments cannot transfer the surplus from the enterprises for other use. There is also no definite ceiling for the banks in providing over-quota loans and over-quota total loans to enterprises. Therefore it is only natural that the economic effect of enterprises in using working capital has been affected.

With the new method, the banks are now in a position to unifiedly control enterprise working capital in a unified way and to resort to the sale-capital rate as the basis for providing loans with floating interest rates. Consequently, the division between fixed quota working capital and over fixed-quota working capital no longer exists. In addition, the banks have linked the factors of production circulation loans for working capital and the sales of the products of the enterprises closely with the pace of circulation of the capital. In this way, the banks can control the allocation and amount of the loans on the basis of the utilization rate of the set capital by way of increasing or decreasing the amount according to the sales of the products of the enterprises. That is to say, the method of checking the absolute amount of capital possessed by enterprises has been changed into one of checking the pace of capital circulation; the management of capital on the basis of several categories has been changed into the management of several kinds of small goods, while the fixed level of the capital possessed has been changed into a flexible ratio. Therefore the method of providing loans on the basis of sale-capital rates is rational, feasible, and scientific with regard to the need for development of the production of enterprises. With this method, it is possible to prevent the enterprises from blindly turning out products that are unsalable and to lead them to produce products that are in line with social needs and are salable, and consequently to meet social needs. With this method, we will be able not only to expand the sale of products but also to promote the rationality of enterprise production structure.

Second, this method has enabled enterprises to carry out strict economic accounting, to improve their economic effect.

Commodity production under the socialist system is also influenced by the role of the law of value. All enterprises spare no effort to reduce the consumption in their production below the level of necessary social labor consumption. As the introduction of the method of providing loans on the basis of sale-capital rates with floating interest rates has enabled the banks to fully display the roles of the economic levers of credit and interest, the enterprises whose production and management are in line with the requirement for improving economic effect will be supported by the banks by way of the provision of loans with lower interest rates; but the enterprises that fail in this respect will be punished by the banks in the manner of limiting loans and increasing interest rates. In this way, enterprises cannot but strengthen and perfect the responsibility system in the use of capital and overcome the defect of "everybody eating from the same big pot" in the matter of capital supply. For quite a long period, many enterprises have possessed excessive capital and consequently have paid more interest. But these expenses have been directly included in production costs to decrease the profits that are delivered to the state and which affect the income of the enterprises and their workers. And if enterprises have possessed less capital, and consequently paid less interest, they were able to decrease production costs and increase profit delivery to the state. But all this has no direct economic relation to the enterprises themselves and to their workers. The role of the lever of credit has not been fully displayed. As a result, enterprise business results have no relations to economic effect. The new method of providing loans on the basis of sale-capital rates with floating interest rates will be effective only when bank credit and interest rates are able to display their roles to combine enterprise motive force with pressure and to unify enterprise responsibility with rights and interests. The portion of saved expenses resulting from a decreased interest rate, because an enterprise has quickened the circulation of capital, will be included in the income of the enterprise fund; consequently, the portion of increased payment of interest resulting from slower capital circulation will be covered by the enterprise fund. As a result, a number of enterprises have been able to decrease their production consumption below necessary social labor consumption to achieve considerable economic effect. Therefore this method must be affirmed and popularized.

In addition, the new method has made enterprise leadership bear more responsibility for promoting enterprise democratic management.

Following the introduction of the method of providing loans on the basis of sale-capital rates with floating interest rates, enterprise leadership is subject to more pressure. In addition, the quota for the possession of capital is shared by enterprise departments and workshops, that is, coupled with the management of various levels. The quota for working capital is also directly linked with economic responsibility and regarded as a criterion in checking the economic responsibility system. Thus, with these measures, workers cannot but raise their sense of responsibility in managing enterprise capital, while the enterprises unify their responsibility with rights and interests. These measures also result in basically changing backward capital management methods.



### III

To further popularize the method of providing loans on the basis of sale-capital rates with floating interest rates represents an important breakthrough in reforming bank credit work. The economic effect of this method has been quite satisfactory since it has been experimented with, while certain experiences have been accumulated. But there are a number of problems that have to be resolved and studied.

First, concerning the basic figure for defining the quota for the sale-capital rate. The banks are now using two criteria for defining sale-capital rates in experimenting with the new method in state industrial enterprises. One is that the quota that has been attained by enterprises over 3 years in the circulation of working capital is regarded as the basic figure. And this basic figure represents a foundation for checking the quota and precalculating the amount of capital that may be possessed by enterprises and the amount of the loans that can be provided by the banks. The other is to take the defined enterprise mandatory planning quota as the criterion for the checking. This quota is based on the goal defined by the state for the circulation of working capital (the quota is based on the number of days required for the circulation of working capital, calculated on the basis of income from sales) that is passed down by the State Planning Commission to various regions and departments and implemented by various levels. I am of the opinion that there should not be two criteria for determining the supply of loans on the basis of sale-capital rates. There should be only one criterion, and that is the quota for mandatory planning time is defined and passed down to enterprises on the basis of state requirements, and this quota must be included in national economic planning. In this way, we will be able to prevent the mixing of two criteria and unify the basic figure for checking, and consequently avoid disputes over the basic rate. In this way, we will also be able to unify and compare the grounds in precalculating the capital that may be possessed by enterprises and the amount of the loans that can be provided by the banks. In addition the method of decreasing floating interest rates, introducing preferential rates, and increasing interest rates as a punishment is feasible in encouraging the advanced and pushing forward the backward. Therefore it is necessary at present to amend the quotas so as to base the work of checking quotas on reliable figures that are definite and easy to practice and consequently to meet the need for further popularizing the method of providing loans on the basis of sale-capital rates with floating interest rates.

Second, concerning expanding the sale of products. Expansion of the sale of products represents an important factor in introducing the method of providing loans on the basis of sale-capital rates. Therefore, in carrying out their production and management, enterprises must persist in the principle of planned economy as the main and regulation by market mechanism as the supplement. The state must define the range of mandatory planning and pass it down as early as possible so that the enterprises will be able to promote their production, expand the sale of their products and the range of processing services according to market demand, and produce more salable products so as to fully meet market demand. The sale of products must not be put under rigid control, so that goods will be able to flow smoothly in the interest of activating the economy and the market. It is an obligation of the banks to guide the production and sale of the products of enterprises through the predictions of economic information.

Third, concerning linking floating interest rates with the economic interest of enterprise capital management staff. With floating interest rates, decreases and increases in the rates by banks are included in enterprise funds and therefore this practice is in a better position to mobilize the initiative of enterprises in managing capital and strengthening and perfecting the responsibility system in the use of capital. But the levels of decreases and increases in interest rates as rewards and punishments for enterprises are small; therefore there is no longer a direct link with the economic interest of the enterprises in using capital or with the economic interest of enterprise capital management staff; and in this way, the role of decreasing and increasing interest rates have consequently been weakened. Now, some enterprises have introduced awards for saving on single items. Concretely speaking, when enterprise capital possession is lower than the defined quota, all the capital management staff will be awarded 3, 6 or 9 yuan quarterly. This method has been proved effective and it merits popularization. This method must also be introduced among those who are responsible for capital management and use of capital and who have made considerable achievements in their work, so that the departments and individuals responsible for the quota for the checking of capital will carry out their work still better, to further improve the economic effects of the use of capital.

CSO: 4006/393

## FINANCE AND BANKING

### TAX SYSTEM REFORM, ENTERPRISE IMPROVEMENT DISCUSSED

HK200357 Beijing JINGJI GUANLI in Chinese No 1, 5 Jan 84 pp 25-27

[Article by Du Pingqin [2629 0756 2953]: "Step Up the Pace of Overall Tax Reform Using Product Tax as the Main Levy"]

[Text] Tax revenues in China represent an important means for financing state organs and an important lever for readjusting the economy. In order to accord with the development of the socialist economy, since June last year state enterprises have begun introducing the system of substituting taxes for delivery of profits in groups and step by step. This system has promoted the development and raised the economic effect of these enterprises and guarantee the stability of state financial sources. Practice proved that the orientation of substituting taxes for delivery of profits is correct. But in the first step of substituting taxes for delivery of profits, taxes and profits still exist simultaneously and their existence means retaining all profits. In this situation, the enterprises are still not in a position to be totally responsible for profits and losses. In addition, income tax is levied only on enterprise profits and therefore it is not in a position to regulate the production of enterprises. Therefore, the present income tax and retention of after-tax profits systems are carried out on the basis of enterprise subordinate relations. Consequently, the related departments at various levels will still carry out administrative interference against enterprises from the point of their own economic interest. Although a regulation tax has been levied, there is still no way to overcome equalitarianism among enterprises. This is because all enterprises have to pay a regulation tax irrespective of their after-tax profits, which are eventually different because of different objective factors and different subjective efforts. This situation means that there is no different criterion for punishments and awards. Furthermore, the types of taxes are too few in the first stage of substituting taxes for delivery of profits, and as a result, it will be difficult for taxes to fully display their leveraging roles. Therefore, in order to perfect the system of substituting taxes for delivery of profits, it is imperative to reform the tax system in an overall way by introducing a product tax as the main levy.

#### The Goals of the Second Stage in Reforming the Tax System

The goals of the second stage of tax reform will include solving the relations between the state and enterprises, the relations between departments and localities, and the relations between the central government and localities, and fully display the leveraging roles of tax revenues in such aspects as organizational income, accumulation funds, and regulating the economy. Concretely speaking, these goals must include the following five steps:

First, it is imperative to handle well the relations between the state and enterprises. Socialist enterprises with ownership by the people in China are relatively independent commodity producers and business managers. Practice in reforming the economic system over the past few years proved that in order to further enliven the economy, it is imperative to expand the decisionmaking powers of enterprises so that these enterprises will be able to combine their responsibilities with their rights and interest and display their initiative. Since the state has demanded enterprises abide and be obligated by the rules and regulations it has defined, it is consequently necessary for the state to provide them with legal interest. Thus, the combination of obligation and interests will put pressure on enterprises and at the same time will also motivate them. With pressure and motivation, enterprises will have vitality. That is, there will be two possibilities for enterprises. One will be to be able to exist and develop while the other is to fail to exist and consequently be eliminated. But these possibilities can only be created by reforming the tax system by introducing product tax. Only in this way will enterprises truly become responsible for both profits and losses. And it is only under this condition that it is possible to enable enterprises to carry out their decision-making powers within the range permitted by the state, and thoroughly correct and overcome such defects as "everybody eating from the same big pot" and equalitarianism.

Second, handle the relations between departments and localities well. Now the interference and limitation of enterprises by departments and localities have been stepped up. But the irrationality of the structure of enterprises and repetitious construction and production will exist. Practice has proved that in spite of the enormous efforts made over the past few years to solve the problems of departments and localities through reorganization and reform, the results have not been satisfactory. Overall reform of the tax system through the introduction of product tax as the main levy will encourage enterprises to free themselves from the bondage of departments and localities from the point of view of their own economic interest, gradually weaken the bondage of subordinate administrative relations, and enable enterprises to make further advances in reorganizing and merging as well as in coordination with specialized departments.

Third, handle the relations between the revenues of central government and the revenues of localities well. The previous financial system, characterized by state unified revenues and expenditures, has many defects. Following the 3d Plenary Session of the 11th CPC Central Committee, this financial system changed the form of "each eating from his own kitchen" and certain achievements have already been made. But this method has been followed by other defects. Overall tax reform with the product tax as the main levy and the restoration and addition of some tax forms will create the proper condition for implementation of a financial system that is characterized by dividing taxes into several forms to guarantee stable sources of revenues for the central government and localities. In this way, following the development of production, the financial revenues of central government and localities will steadily increase.

Fourth, fully display the roles of tax revenues in organizational income and accumulation funds. Following the overall reform of the tax system with the product tax as the main levy, state financial revenues will be based on organizing taxes through taxation means defined by the tax law. In addition, by stepping up



the tax law, it will be necessary to perfect tax revenues organs and do a good job of building the ranks of the staff of these organs so as to fully display the roles of tax revenues in organizational income and accumulation funds.

Fifth, fully display the roles of the tax economic lever. The overall reform of the tax system with the product tax as the main levy means that taxes will become an important economic lever of the state in managing and directing the development of the economy. That is, the state will be in a position to base itself on macroscopic economic policy and resort to product tax to regulate production and promote the rationalization of product structure. It is also in a position to increase the value tax to balance tax burdens between all-embracing factories and those that are not all-embracing, promote the coordination and combination of specialized departments to promote enterprise reorganization and solve the irrationality of enterprise structure; resort to various local taxes, such as property tax, vehicle and shipping taxes, land using tax and city protection tax to guarantee the ordinary needs of cities, promote the ability of enterprises in raising the utility rate of their equipment and in rationally using equipment, resort to tax from surplus accumulation to regulate enterprise income so as to implement still better the principle of giving consideration to the interests of the state, collective, and individuals, mobilize the initiative of enterprises and workers, promote the development of production and raise economic effects; resort to the tax on the difference of surplus profits to regulate the income of enterprises caused by irrational pricing and which is higher than social average profit rate so that the profits of enterprises will generally be at an appropriate level.

#### The Main Point in the Second Stage of the Reform of the Tax System

The main point in the second stage of reforming the tax system is to resort to product tax as the main levy while our main effort must not be concentrated on income tax. As the same products are strongly comparable, the implementation of a unified tax rate will enable enterprises to achieve social average profits on the basis of almost the same rate. In this way, enterprises will be able to carry out competition under basically the same conditions and we will also be able to encourage the advanced and push forward the backward, as advanced enterprises are making more profits and backward enterprises are making less profits. In this way, enterprises will have the motivation as well as the pressure and they will spare no efforts to improve their management, tap potential, and survive and develop to improve their quality and economic effect.

The reform of the tax system with the introduction of product tax as the main levy means that enterprises will be solely responsible for both profits and losses after they have paid the projected tax. In this way, we will be able to promote the reorganization and merger of enterprises and carry out coordination among specialized departments. Under the present situation in which it is unlikely that prices will fluctuate drastically and under the guidance of the state macroscopic policy, we will be able to promote the rationalization of the product structure through the readjustment of the tax rate.

The reform of the tax system with the introduction of the product tax as the main levy, that is, by levying taxes on products, the income of enterprises as a result of irrational pricing will be concentrated in the hands of the government. This

situation is in the interest of guaranteeing the stability of state revenues. In addition, by adding tax forms, the various links of various parts of the economic sector will be able to display tax economic lever roles to create favorable conditions for reforming the financial system and the wage system. Therefore, the reform of the tax system with the introduction of the product tax as the main levy will represent a breakthrough in reforming the industrial economic system in urban areas as well as be a key for reforming cities.

#### The Key Point in Reforming the Tax System

The key point in reforming the tax system is to readjust and reform tax forms, tax items, and tax rates.

In the early days following the founding of the PRC, the state set up 14 tax forms that included an industrial and commercial tax (including business and income tax), goods tax, salt tax, stamp duties, property tax, vehicle and vessel license tax, trading tax, abattoir tax, cultural recreational tax, special consumer goods tax, deposit interest tax, wage tax, and legacy tax (the latter two taxes have yet to be implemented). The goods tax covers 49 items, with 49 tax rates; commodity circulation covers tax 35 items, with 37 tax rates; and the business tax covers 10 items, with 20 tax rates. Under the conditions at that time, when five economic forms existed simultaneously, it was basically in line with the objective needs of economy to form these tax items and rates, and they have displayed their roles in the form of tax revenues to promote the readjustment, reform, and development of the economy and have guaranteed the funds that are needed by socialist construction. After 1958, industrial and commercial tax, goods tax, commodity circulation tax, and stamp duties were merged into an industrial and commercial unified tax with 108 items and 141 tax rates. In 1973, measures were taken to further simplify and merge tax forms by merging the industrial and commercial unified tax with the property tax, and vehicle and ship license was merged with the industrial and commercial tax with 44 items and 82 tax rates. This merging has seriously weakened the lever roles of tax revenues. In reforming tax forms, items, and rates it is necessary to consider the following: First, the reform must accord with the needs of macroscopic economic regulations; second, it must accord with the needs of opening China to the outside world and enlivening the domestic economy; and third, it must accord with the needs of enterprises to "manage their business independently and become responsible for both profits and losses." The readjustment and reform of tax items must be carried out on the basis of the principle of practical thinking and opinions about the reform of the tax system that was approved by the State Council in 1980 and passed down to the Ministry of Finance. Concretely speaking, the reform must be carried out in the following three areas:

1. Reform the present industrial and commercial tax into the three forms of product tax, business tax, and increased value tax.

- (1) Product tax: design the product tax rate on the basis of investigating industrial products, agricultural products, forestry products, animal husbandry products, and marine products, the average profit level from sales of products in localities, and the average profit level of similar products across the country and on the list of the current industrial and commercial tax items and rates. In designing tax rates it is also imperative to consider the needs of state macroscopic planning and other aspects, such as limiting the production

of the products that are in excessive supply and encouraging the production of those that are in short supply, encouraging the development of new products and the production of small commodities and limiting and eliminating old products, balancing tax responsibilities between state enterprises, collective enterprises, and enterprises in cities and towns, while different treatment must be given to those enterprises with heavy taxes and small profits and those with big profits and light taxes. It is demanded that through tax reform with the introduction of product tax as the main levy the amount of income of enterprises will be handed over to the state in the form of tax.

(2) Increased value tax. This form of tax will be experimented with in the two different trades of machinery and agricultural machinery, and will be continued to be used experimentally by the enterprises that are producing sewing machines, bicycles, and electric fans. The experiments in metallurgical smelting, metallurgical [word indistinct] products, and silk products may be expanded. In addition, the increased value tax on products can be readjusted when the profits from these products fluctuate drastically and suddenly.

(3) Business tax. The current industrial and commercial tax that is levied on commerce, transportation, public utilities, and various service trades must be changed into a business tax. The range for levying this tax must be expanded to commercial wholesales, building and installation, financial insurance, cultural recreation, and publishing.

## 2. Restore and introduce new local taxes.

(1) Property tax, land use tax, and vehicle and vessel use tax. The tax system that was reformed in 1958 and 1979 by merging the property tax and restoring the vehicle and vessel license tax must be reformed into a property tax, land use tax, and vehicle and vessel use tax.

(2) City protection tax. According to the needs of city construction, the original 5 percent of city protection expenses that are covered by industrial and commercial enterprise profits must be changed into a city protection tax covered by a certain proportion of sales income. And the range of this tax must be expanded.

(3) Equipment ownership tax. Enterprise property, such as housing facilities, land, and vehicles and vessels have already been taxed while most enterprise production equipment is purchased through state investment, enterprises must also pay a certain proportion of their tax to the state on the basis of the net value of enterprise production equipment.

## 3. Amend the method of levying income tax and form a tax on the difference of surplus profits.

The current tax-levying method on the income of state enterprises must be readjusted and amended while the current method of levying tax proportionately must be replaced by an eight-level surplus accumulation tax rate. The enterprises with after-tax profits that are higher than the present enterprise retention level and social average profit level must, by taxing the difference made up of surplus profits, hand over to the state most of the income that is caused by irrational pricing; of course, the enterprises themselves can retain a certain amount. Enterprises that have suffered losses after making tax payments must have their taxes decreased temporarily.

Following the above-mentioned reforms of the tax system, each type of tax has its own targets while an enterprise in general has to pay several types of taxes. In this way, we will be able to display the regulating roles of tax revenues in different aspects and links in the economic sector.

#### The Principles That Must Be Observed in Reform

(1) In estimating and defining types of taxes, tax items, and tax rates, we must also consider the stable growth of state financial revenues and the vitality of enterprises. We must also bear in mind enterprises loans and the fact that enterprise expenses for the retirement of elderly workers and labor protection have gradually increased. Therefore, we must understand that enterprise expenses that are not related to actual business are quite enormous. Therefore, we must consider how to create conditions for enterprises to strengthen their ability to adapt themselves to changes so that through reforms, they will be able to further enliven their economy. Therefore, in readjusting and reforming tax type and tax rates, we must understand that these tax burdens of enterprises cannot be increased drastically. For example, tax rates can be set at a lower level; readjustment can be carried out on a small scale and gradually expanded and increased. This gradual development requires 2 to 3 years, and yet we can attain this goal of reform if we are able to carry out the reform according to specific circumstances.

(2) The current tax rates that are too high or too low must be readjusted. The current industrial and commercial tax rates became effective beginning in 1973 and have been implemented for 10 years. Some rates were defined in 1958, so this means they have been implemented for as long as more than 20 years. Following the development of the economy and changes in enterprise products, some tax rates have become too high and consequently the related enterprises have found themselves on the verge of losses. Some other enterprises with too-low tax rates are making big after-tax profits. Therefore, these rates must be readjusted so as to make the product structure more rational.

(3) The backward enterprises must not be protected, but must be helped to make changes. Of course, certain time periods are required for these enterprises to make changes. Therefore, they must be given consideration by decreasing their taxes for 1 to 3 years. And if they fail to make changes during a defined period, they must suspend production and be merged or shifted to other production. And finally, if these enterprises still suffer losses after these efforts, they cannot but be eliminated.

CSO: 4006/387



## FINANCE AND BANKING

### RENMIN RIBAO ON REFORM OF TAXATION SYSTEM

HK211008 Beijing RENMIN RIBAO in Chinese 14 Mar 84 p 5

[Article by Zhan Wu [6124 2976], Gong Qifang [1362 7871 5364], and Chen Deyan [7115 1795 3508]: "Several Questions on the Reform of the Taxation System"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, our country has made a series of initial and exploratory reforms of the economic management system. The reform of the financial and taxation systems has now been placed in an important position. In June 1983, on the basis of summing up the experiences of more than 400 state enterprises in practicing the system of substituting taxes for delivery of profits and with the approval of the State Council, the state enterprises in our country began to adopt the system of substituting income taxes for delivery of the greater part of profits and making rational distribution of profits in various forms after paying taxes. Thus, the first step was smoothly completed in substituting taxes for delivery of profits. At present, an urgent task is to seize this opportune moment to take the second step in this work, that is, to carry out a thorough and overall reform of the taxation system and to thoroughly substitute taxes for delivery of profits. In this article, on the basis of an investigation made in the preceding period in Shanghai, Liaoning, Jilin, Tianjin, and Sichuan, we would like to offer some of our tentative opinions on several questions concerning the reform of the taxation system.

How Do We Gain an Overall Understanding of and Give Play to the Functions and Role of Taxation?

Taxation is a means of the state to participate in the distribution and redistribution of national income by relying on its political power. Since the founding of the state, by applying this means, more than 800 billion yuan in funds have been collected for the state, which have played an important role in promoting our socialist construction. This is the main aspect of things. However, over a rather long period of time, mainly in the years of the "Great Leap Forward" and the 10 years of turmoil, under the influence of the erroneous "leftist" ideology, there appeared an ideological trend of overlooking and negating the role of taxation. The essence of this ideological trend includes the following two aspects: 1) It held that after the basic completion of the socialist transformation of the ownership of the means of production, the socioeconomic structure was changed into unitary system of socialist public

ownership, under which commodity and the law of value no longer play an important role and taxation had basically lost its role of economic regulation, but had only preserved the function of accumulating funds. 2) It also did not have a clear understanding of this function of accumulating funds and failed to realize that taxation is more stable and more legally effective than turning over profits by state enterprises. On the contrary, it wrongly held that taxation was not as advantageous as delivery of profits. Once an experiment was even made in the state enterprises in some cities, trying to "merge taxation and delivery of profits into one" and abolish taxation, so as to realize a so-called tax-free country."

Our practice and experience over the past 30 years or so prove that in a socialist country, which has realized public ownership of the means of production, taxation still plays an important role. 1) It is the most stable and most reliable means to raise funds. 2) It is an important economic lever to regulate production, circulation, and consumption, and to conduct a reasonable reform of the economic structure. 3) It is an important instrument for correctly handling the relations between the state and the enterprises in distribution. 4) It is an important tool in protecting legal commercial activities and hitting at speculation and illegal activities inside the country and in safeguarding national economic interests and promoting international economic exchanges in external affairs. In short, taxation has both functions of accumulating funds and regulating the economy, which supplement each other and are inseparable. Fundamentally speaking, its financial function of accumulating funds can be brought into effective play only on the basis of giving full play to its economic function. Only when the economy is prosperous can there be sufficient financial resources, and only when both the financial and economic functions of taxation are brought into full play in an all-round way can we say that the aim of reforming the taxation system is attained. This is an experience and lesson we have summed up at great cost. It is also an important principle for drafting plans for the reform of the taxation system.

#### How Do We Make Reasonable Arrangements for the Category of Taxes?

We believe that China's taxation system should be composed of the following six categories: 1) Taxes levied on the turnover of products (volume of business), such as product tax, value added tax, and sales tax; 2) taxes levied on property, such as housing tax and tax on using ships and vehicles; 3) tax levied on transactional action, such as tax on slaughtering animals and tax on country fair trade; 4) tax levied on income, such as income tax; 5) tax levied on differential income, such as resources tax, tax on land use, and tax on possessing fixed assets; and 6) tax levied on some specific items in a certain period in accordance with state policies, such as special tax on fuel oil, construction tax, the above-quota bonus tax, and so on. All these taxes play the role and function of collecting funds and regulating the economy in their spheres. However, they do not play an equal role. It is necessary to make reasonable arrangements for the category of taxes in light of China's conditions, that is, to form the structure with product tax (including sales tax and value added tax) as the main body, income tax and differential income regulation tax as the two wings, and other taxes as the supplements.

Why should product tax rather than income tax be taken as the main body at the present stage in our country? This is because that product tax has the following advantageous characteristics: 1) Product tax is levied according to sales volume. The enterprises have to pay tax whenever they sell their products. Thus, the tax will not be affected by the change in costs or in profits or losses. Compared with income tax, which is levied only on the enterprises receiving profits, it covers a wider range and is more stable and reliable in ensuring timely financial income. 2) In levying product tax, a relatively unified tax rate is adopted toward the same product. This can plan the role of encouraging the advanced enterprises, spurring the less advanced, and urging the enterprises to improve their management in production. At the same time, by adopting different tax rates for different products in light of the market situation, such as toward goods in excessive supply and goods in short supply, and necessary products and unnecessary products, it can play the role of encouraging or restricting production. Thus, especially when prices are unreasonable and cannot be changed significantly, the profits gained by various trades can also be regulated. However, income tax, is a kind of tax concerning the distribution of profits. Although it can regulate the income of the enterprises in a comprehensive way after profits are gained, in production, circulation, and consumption, it cannot play an extensive regulatory role before profits are gained through various links of circulation. 3) As product tax is levied according to the sales volume, it is easier to calculate and can be paid promptly. Moreover, since it has been adopted for a long time in our country, the enterprises are accustomed to it. 4) Product tax has always occupied a dominant position in China's tax revenue.

However, product tax also has its limitations in the role of regulation. It cannot reflect the supply and demand in the market and regulate production as promptly as do prices. Sometimes its regulatory role may easily be counteracted by a change or floating of prices. Nor can it solve the problem of differential income in enterprises, which has emerged due to objective factors, as reasonably as differential income regulation tax does. We must affirm that differential income regulation tax plays an important and distinctive role in regulating the differential incomes between enterprises due to various external conditions, eliminating unreasonable sharing of joys and sorrows, and enabling the enterprises to compete with each other from basically the same starting line. It cannot be replaced by product tax, income tax, or other taxes.

The reason why income tax is regarded as another important wing with differential income regulation tax is that it also has distinctive and important role. Since it is levied on actual earnings, it can play the role of relatively balancing the profits and income of various enterprises. As for some excessive profits, when it is not appropriate to levy taxes separately on excessive income or above-quota profits, they can also be regulated by means of raising the class of progressive income tax or increasing the percentage of tax levied. We must also recognize that along with the development of diverse economic forms, such as collective, individual, and joint venture enterprises, and the increase of the national income, the regulation of income and profits by income tax will become more and more important.

## How Do We Correctly Handle the Relations Between Diversification and Simplification of Tax Categories, Tax Items, and Tax Rates?

Since the founding of the state, tax categories, tax items, and tax rates in our country have followed a tortuous road from many to few and from few to many. The number of tax categories was reduced from 14 in the period just after the founding of the state to 9 in 1958, and then to 6 in 1972, while that of tax items was reduced from 108 to 44 and that of tax rates from 144 to 82. Of the 82 tax rates, only 16 were different rates. Then they were further simplified to only one tax rate for most state enterprises. Since the 3d Plenary Session of the 11th CPC Central Committee, some previous tax categories have been restored and some new categories have been established. The number of tax categories will soon reach 17 or 18.

Some of the above-mentioned changes were correct, because they suited the needs of the economic development. For example, the proposal on "simplifying taxation and sharing reasonable burdens," which was put forward soon after the founding of the state, suited the needs of political unification and the needs of rapidly restoring and developing the economy at that time. It was also of positive significance to the reform of exorbitant taxes and levies left over from the period of the KMT rule. However, there were also some changes which were made blindly under the influence of the "leftist" ideology. For example, during the period of the "Great Leap Forward" and the 10 years of turmoil, tax categories, tax items, and tax rates were blindly and excessively simplified.

Historical experiences show that under China's concrete conditions, it is not suitable to adopt a unitary taxation system. Instead, a diversified taxation system should be adopted, because only thus can we: 1) suit the diverse economic forms and multiple structure of productive forces, with the socialist public ownership in a dominant position, and the imbalance of economic development on China's vast territory; 2) suit the needs of opening to the outside world, importing foreign investment, technology, and talented people, and conducting economic exchanges and cooperation; 3) suit the needs of reforming the financial and economic management systems, which are characterized by unified revenue and expenditure, unified contract and distribution, state monopoly for purchase and marketing, and "everybody eating from the same big pot," and enlivening the economy; and 4) make tax items and tax rates more reasonable in light of the above-mentioned complicated situation and the conditions of various targets on which taxes are levied, so as to avoid "imposing uniformity on all enterprises" and give fuller play to the function of taxation in accumulating funds and regulating economy.

However, there must be certain proper and reasonable limits for the practice of a multiple taxation system. This mainly depends on the following three things:

1. Reasonably balancing tax burdens. The establishment of tax categories and tax items and the decision on tax rates must enable various economic sectors, including state, collective, individual, and joint venture enterprises, and various trades, including industry, communications, agricultural, and commerce, to bear reasonable and balanced burdens. In view of the consequence of one-sidedly simplifying the taxation system in the past, it is necessary to restore some



previous tax categories and establish some new categories at present. This is not only significant in balancing financial burdens, but also significant in the sense of practicing economy. For example, the establishment of a resources tax and the restoration of land tax are not only significant in expanding the range of tax burdens but are also significant in restricting sabotage of natural resources, practicing economy in the use of cultivated land, and reasonably using natural resources and land.

2. Adopting different policies of giving awards and placing restrictions on different trades and different products. For example, if there are only a very few and oversimplified tax items and tax rates for various products, such as the products bringing about higher or lower profits for certain enterprises due to unreasonable prices, the products in sufficient or in short supply, the products which should be encouraged and ordinary products, daily necessities and high-grade consumer goods, newly designed products and out-dated products, and products for export and imported products, and there are very small differences between these tax items and tax rates, the policies of giving awards and implementing restrictions cannot be expressed by taxation and its role as an economic lever cannot be brought into play.

3. Being convenient for business accounting in enterprises and suited to the management of the enterprises and the level of tax collectors. At the present stage, the business and financial management level of the managers in both state and collective enterprises in our country and the professional level of our tax collectors are still very low. If there are too many tax categories, tax items, and tax rates, they can easily become obstacles in production and circulation, which will be harmful to doing a good job of business accounting in state and collective enterprises. Besides, the tax collectors will also find it difficult to fulfill their tasks due to their low professional level.

How Do We Use the Lever of Taxation in a Correct Way To Encourage Advanced Enterprises and Spur On the Less Advanced?

Generally speaking, there must be a relatively unified tax rate in our country for product tax of the same product and in the same trade, so that taxation can play the role of encouraging advanced enterprises and spurring on the less advanced. However, at present, the economic development in our country is very uneven, and there is a great disparity in profit and tax rates between various enterprises which are in the same trade or even produce the same product. Thus, there is a sharp contradiction between this uneven economic development and the relatively unified tax rate for the same product. Under such circumstances, in carrying out the reform of the taxation system, it is also necessary to take into account the enterprises' ability to pay taxes, so as to avoid violent economic fluctuation. Therefore, when deciding tax rates, it is necessary to pay attention to the following three points:

1. Tax rates must be decided according to the average profit rates and be fixed at a medium level accordingly. If the rates of product tax are fixed at a level below the average profit rates, they will play a role of protecting backwardness and encouraging most less advanced enterprises. If, on the contrary, they are fixed at a higher level, then most enterprises will get less profits or even

suffer losses, which will bring about a violent fluctuation. Therefore, at present, it is more suitable to decide the rates of product tax according to the average profit rates, that is, to keep them at a medium level accordingly. Thus, the advanced enterprises will get more profits and thus be encouraged, and the less advanced and backward enterprises will get less profits and be spurred on. At the same time, a violent fluctuation can be prevented.

2. On the premise that there are relatively unified tax rates for the whole country, the number of tax items and tax rates for product tax and sales tax can be appropriately increased, or be increased according to the grades of products. There must be a relatively unified tax rate for each trade in our country. There cannot be one rate for enterprise A in a certain place and another rate for enterprise B in another place. However, within various trades, in which there are great disparities among the enterprises, the number of tax items can be appropriately increased, and tax rates can also be increased for each tax item or be increased according to the grades of products. Judging from the results of investigation and calculation in various localities, the number of tax items and tax rates should be increased for product tax on many products, especially for sales tax of the commercial departments. In such a large commercial field, it is certainly unsuitable to have only one tax item and one tax rate for sales tax levied separately on commercial business and service trade. For this reason, in commerce, like in industry, tax items and tax rates must be set up separately according to different trades. Only thus can we more realistically give play to the role of product tax in encouraging advanced enterprises and spurring on the backward, while at the same time, prevent the advanced enterprises from getting excessive profits and the less advanced enterprises from earning deficient profits or suffering losses.

3. It is necessary to make appropriate use of regulation tax and conduct reasonable control over the range of losses suffered by enterprises and over the reduction and remission of taxation. Profit regulation tax should be levied on those advanced enterprises whose profits have exceeded the reasonable level. The surplus profits will belong to the state. However, a relatively unified rate of this kind of regulation tax should be decided according to trade or area, or by means of other proper methods, rather than using different rates for different enterprises, so that the initiative of the advanced enterprises may not be dampened. As to those less advanced enterprises which have decreased profits or suffered losses, reduction or remission of taxation must be given within a certain period of time in light of their concrete conditions, so that they may not suffer excessive losses while being spurred on. But the reduction and remission should be controlled within certain limits and the power should be concentratedly controlled by the central authorities. Localities have no right to decide on the reduction and remission.

#### How Do We Create External Conditions for the Reform of the Taxation System?

Working out a reasonable plan for the reform of the taxation system will solve half of the problem in reforming the taxation system. In order to achieve the desired results, it is also necessary to create necessary conditions, adopt appropriate measures in a planned way, and carry out management in a comprehensive way.

1. The reform of the taxation system must be combined with readjustment and reorganization in various trades. The reform of product tax must be combined organically with the plan of shutting down some backward enterprises, suspending their operation, amalgamating them with other enterprises, or switching them to the manufacture of other products, and with the design of fixed assets tax, resources tax, and other new categories of taxes. Only in this way we give appropriate and concrete play to the regulatory function of taxation, especially of product tax, in encouraging advanced enterprises and spurring on or even eliminating the backward enterprises. Only thus can the reform of the taxation system become a powerful economic lever in promoting the reorganization and combination of enterprises as well as in shutting down some backward enterprises, suspending their operation, amalgamating them with other enterprises, or switching them to the manufacture of other products, and become a breach in promoting the reform of the economic system in cities.

2. The reform of the taxation system must be combined with the practice of the responsibility system concerning gains and losses in enterprises and the improvement of the external conditions of the enterprises. After the reform of the taxation system, it is necessary to gradually adopt the responsibility system characterized by the enterprises being responsible for gains and losses to the state in light of the concrete conditions of various trades and various enterprises. Ours is a socialist country practicing a planned economy. Production in state enterprises is carried out in accordance with the economic targets set in the state plan. Energy resources, main raw materials, as well as prices, credit loans, and wages are mostly arranged and controlled by the state in an unified manner. However, at present, the tasks of readjusting the national economy have not yet been fulfilled, the work of overall balancing has to be strengthened, and many external conditions of the enterprises in conducting production are abnormal. There are still great difficulties. In order to achieve the results of improving production and management and raising economic returns after the reform of the taxation system, the state and the enterprises must make joint efforts to forcefully normalize the external conditions of the enterprises while practicing the responsibility system concerning gains and losses.

3. The reform of the taxation system must be organically combined with the reform of prices. Taxation and prices are both important economic levers in regulating and promoting socialist production, exchanges, distribution, and consumption. Only when they coordinate and supplement each other can better results be achieved. Under the present condition that it is impossible to carry out an overall readjustment of the price system in our country, it is still necessary to make the best possible overall arrangement for both. First, it is necessary to take into consideration the possible adjustment of prices when carrying out the reform of the taxation system, so as to prevent as far as possible fluctuation in the future when prices are adjusted after the reform. Second, it is necessary to share out the work and cooperate with each other. For example, if the price of a certain product has already been adjusted recently, the rate of tax on this product can remain unchanged, if the price and profits of a certain product are high and the price cannot be adjusted for

the time being, the problem can then be solved by appropriately readjusting the rate of product tax. Third, it is necessary to attain certain policy goals through coordination. For example, in order to readjust the irrational economic setup or product mix, parallel measures of price and taxation can be taken at the same time.

4. The progress of the reform of the taxation system should be suited to the strengthening of the contingent of tax collectors and the perfection of the legal system. At present, our tax collectors are still not skillful in their professional work, the legislative and judicial work in taxation is still imperfect, the phenomenon of tax evasion is serious, and tax collecting and management work still cannot suit the needs of the reform of taxation system. Therefore, it is necessary to take into consideration and make overall arrangements of these factors when making preparations for and carrying out in an all-round way the reform of the taxation system.

CSO: 4006/387



## MINERAL RESOURCES

### BRIEFS

SHANXI NEW LIMESTONE MINE--The No 212 geological team of the Shanxi Provincial Geological and Mineral Bureau recently discovered another large, high-quality limestone deposit. This bedded limestone deposit covers 1,450 meters from east to west and 1,050 meters from south to north. The seam ranges from 17.26 to 54.39 meters in thickness, averaging 40.83 meters. The reserve is 140 million tons. [Text] [Taiyuan SHANXI RIBAO in Chinese 5 Mar 84 p 1 SK]

CSO: 4006/387

## INDUSTRY

### GUANGDONG ELECTRONICS INDUSTRY DEVELOPS RAPIDLY

Guangzhou NANFANG RIBAO in Chinese 31 Jan 84 p 1

[Article by reporter Wang Dekuan [3769 1795 1401] and correspondents Li Junqiu [2621 0193 4428] and Lin Shi [2651 0670]]

[Text] By the end of 1983, the total output value of the electronics industry in Guangdong Province had actually doubled in 2 years. Comparing 1983 with 1982, its total industrial output value increased 63 percent, its actual profits increased 1.5 fold and taxes and profits delivered to the state increased 1.4 fold.

Since the beginning of 1983, the electronics industry in Guangdong Province has conscientiously carried out enterprise consolidation work with the emphasis on readjusting and strengthening new leading bodies. At the same time, it has conscientiously implemented the policy of opening up to the outside world and imported many new technologies, techniques and equipment, changing the appearance and improving the technical level of the electronics industry. According to initial statistics, by the end of 1983, 75 production lines and over 2,600 sets of advanced equipment and instruments had been imported. Guangdong's electronics industry, which used to produce only low-grade radios, can now produce high-grade radios, radio-recorders, color television sets, electronic computers and microcomputers. Its products are now more competitive and are being sold to over 20 provinces and municipalities in China.

Since the beginning of 1983, Guangdong's electronics industry has also produced many high-quality, low-priced new products to meet the needs of the market. According to statistics, more than 200 new products were developed in 1983, a historical record. The quality of electronics products has also substantially improved. For example, the Zuanshi brand Model-828 radios of Foshan City and Pengbo brand radios of Jiangmen City have both won the title of provincial good-quality products. The quality of some electronics components has also markedly improved. In the past, provinces and municipalities where the electronics industry was developed seldom purchased semiconductor products from Guangdong Province. In 1983, many such provinces and municipalities became customers of Guangdong Province, increasing the output of Guangdong's electronics components by 1.6 fold. Most were sold to Shanghai and Beijing.

12302

CSO: 4006/313

## INDUSTRY

### GUANGDONG COMPLETES 20 LARGE PROJECTS IN 1983

Guangdong NANFANG RIBAO in Chinese 1 Feb 84 p 1

[Article by Cai Changjin [5591 1603 0093] and Zhou Shude [6650 2885 1795]]

[Text] By utilizing foreign funds and importing advanced technology and equipment, over 20 relatively large productive projects were completed and commissioned or put into trial production in 1983.

Major large and medium productive projects completed and commissioned in 1983 are the Xinhui County Polyester Fiber Plant with an annual production capacity of 5,000 tons of polyester filaments, the Nanfang Plastic Weaving Plant with an annual production capacity of 19 million square meters of polypropylene weave bags, the Shantou Dongfang Plastics Plant with an annual production capacity of 1,500 tons of PVC plastics, the Hainan Dangan County Nylon Zipper Plant with an annual production capacity of 10 million meters of nylon zippers and the Meixian Prefecture Yixing Magnetic Tape Plant with an annual production capacity of 3 million blank magnetic tapes. Among those which were put into trial production or those whose capital construction was completed and whose machinery equipment was installed are the Guangzhou plastic packing material plant with an annual production capacity of 6,400 tons of BOPP--a new packing material--the production line of computer-controlled-temperature furnaces in the Foshan City Acid-proff Ceramics Plant and the production line of corrugated cardboard in the Foshan City Cardboard Box Plant. These projects have relatively high economic results because their techniques are relatively advanced. For instance, the complete set of equipment imported by the Xinhui County Polyester Plant through compensation trade that has an annual production capacity of 5,000 tons of polyester filaments has the 1980's advanced world technical level. The Japanese water-jet loom and finishing equipment imported by the Foshan City No 3 Silk Plant also have relatively advanced techniques. It is estimated that this equipment will create 100 million yuan of output value a year and that it will be paid back after 6 years of operation.

Increasing the number of such productive projects and continuously putting them into operation have accelerated the technical transformation of existing enterprises in Guangdong Province. The production techniques of Guangdong's textile, clothing, electronics, plastics and packing industries have markedly changed. In the past few years, Guangdong's electronics industry has imported 74 production lines including television sets, radio-recorders, electronic clocks, calculators and electronic components. It has also imported 2,520 sets of advanced equipment and instruments.

12302

CSO: 4006/313



## CONSTRUCTION

### HENAN MEASURES TO COMPLETE KEY STATE PROJECTS

HK211219 Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 20 Mar 84

[Excerpts] To guarantee the smooth progress of the nine key state projects in our province, the provincial planning committee recently studied with relevant departments and prefectures and cities and put forward seven measures:

1. It is necessary to further conduct publicity and education in vigorously supporting the key state projects within the whole province.
2. It is essential to strictly control the scale of investment in fixed assets, to strengthen the management of the funds outside the budget, and to concentrate forces on the key projects. Departments or individuals are not allowed to indiscriminately start projects.
3. Regarding the key state projects, priority must be given to the appropriation of investments, to the requisitioning of land, to demolition, to the supply and transport of local materials, to the arrangements for design and building forces, to satisfying the conditions for cooperation given by other places, and to rounding off urban public utilities.
4. We must transfer competent building forces to the key state projects. We must adhere to the building procedures and must implement the economic contract responsibility system in an all-round way.
5. The departments in charge of the key projects must strictly implement the capital construction procedures and must grasp seriously and well work in the preliminary period of construction. We must prevent building work from being intermittently interrupted.
6. The prefectures and cities where there are key state projects must set up key project leadership groups with the participation of the principal leading comrades.
7. A provincial symposium on supporting and guaranteeing the key projects must be held this year to sum up experiences and to commend the progressives.

CSO: 4006/387

## CONSTRUCTION

### BRIEFS

HIGH-RISE BUILDINGS CONSTRUCTION--Beijing, 22 Mar (XINHUA)--Chinese construction workers have set a home record in putting up massive high-rise buildings by adding one story in every three days, according to the China National Construction Engineering Corporation. The speed is also among the highest in the world, the corporation said. The record was made by the No 3 Construction Bureau under the corporation in building the international trading center in the Shenzhen special economic zone. It is the tallest concrete block in China with 48 stories above the ground, 160 meters in height, and a revolving restaurant and a heliport on the roof top. Each floor of the main building has an area of 1,322 square meters. Zhang Enpei, director of the bureau undertaking the project, said that the adoption of the monolithic slip-form process and laser control and other advanced construction methods have contributed to the speed. The trading center was funded by governments of 18 Chinese provinces and municipalities and central government departments. It will be used for holding international trade meetings and exhibitions. The whole project is scheduled for completion by the end of this year. [Text] [04221155 Beijing XINHUA in English 1048 GMT 22 Mar 84]

CSO: 4020/87

## DOMESTIC TRADE

### BRIEFS

SHANXI INDIVIDUAL-RUN SHOPS--According to recent statistics of the Shanxi Provincial Industrial and Commercial Administrative Bureau, urban and rural licensed individual-run industrial and commercial units had increased to 108,370 in the province, with some 158,600 persons and 82.1 million yuan involved. Their 1983 business totaled more than 410 million yuan, 2.53 times greater than in 1982. The number of the units and persons and funds involved were also 100 or 500 percent more than in 1982. [Text] [SK210017 Taiyuan SHANXI RIBAO in Chinese 3 Mar 84 p 1 SK]

LIAONING COMMERCIAL SERVICE NETWORK--According [words indistinct] released by the Liaoning Provincial Commercial Department, Liaoning Province had 150,900 commercial and service units by the end of 1983, an increase of 11.3 times over 1979. So far, there is one commercial unit for an average of every 85 persons. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 18 Mar 84 SK]

CSO: 4006/387

## FOREIGN TRADE

### PRC TRADE VOLUME WITH WEST EUROPE INCREASES

OW170224 Beijing XINHUA Domestic Service in Chinese 1557 GMT 15 Mar 84

[Text] Beijing, 15 Mar (XINHUA)--At a press briefing on 15 Mar for Chinese and foreign journalists, Huang Wenjun, press spokesman for the Ministry of Foreign Economic Relations and Trade, explained China's centralized control of foreign trade and development of economic relations and trade with West Europe.

Huang Wenjun said: In recent years, China has achieved great results in implementing an open-door foreign trade policy. In order to further raise the economic efficiency of foreign trade, the country has decided to centralize the administration and control of foreign trade and place it under the Ministry of Foreign Economic Relations and Trade, which will exercise unified leadership and put the management under its relevant departments.

Huang Wenjun said: A strengthening of centralized control of foreign trade does not mean going back to the old way before the structural reform in foreign trade. Centralization does not imply making foreign trade management rigid, but under the precise of centralized control, means continuing to mobilize fully the initiatives of all sectors and creating centralization, vigor, and order in foreign trade activities.

Touching upon economic relations and trade with West Europe, Huang Wenjun said: In 1983 the two-way trade between China and West Europe was \$6.8 billion, an increase of 20.9 percent over 1982. The proportion of the two-way trade in China's total import and export volume increased from 14.1 to 16.7 percent. Chinese imports from West Europe, the region accounting for the biggest increase of Chinese imports, totalled \$4.2 billion, an increase of 37.5 percent over 1982. Chinese exports to West Europe totalled \$2.6 billion, an increase of 1.2 percent.

Huang Wenjun also spoke of the economic cooperation between China and West Europe.

CSO: 4006/389



## FOREIGN TRADE

### USE OF FOREIGN FUNDS FOR ECONOMIC DEVELOPMENT EXPLAINED

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] No 20, 25 Oct 83 p 41

[Editor's responses to readers' questions on utilization of foreign funds]

[Text] Question: We have had a favorable balance of trade in the past few years. Why do we still need to use foreign funds?

Answer: We have a foreign trade surplus chiefly because we have carried out economic readjustment and basically stopped importing complete sets of equipment in the past few years. To fulfill the strategic goal set forth by the 12th CPC Congress, we must transform existing enterprises and carry out a number of key projects. To transfer advanced technology and management methods and import necessary equipment in complete sets, we need large amounts of foreign exchange. Our current foreign exchange surplus can by no means satisfy this need.

Utilizing foreign funds to transfer technology is not an expedient measure. We should not approach it in light of temporary needs. Judged from the development of international economic relations, capital and technological exchanges have become an important element in accelerating the development of economic construction in all countries. All economically developed countries have used and still use large amounts of foreign funds and technology.

Question: Will the utilization of foreign funds get us into heavy foreign debts? Is there any risk involved in debt repayment?

Answer: Our principle for utilizing foreign funds is active and effective. It is to do what we are capable of. Therefore, unlike some countries, we will not run into heavy debts and suffer a vicious circle.

We have basically repaid all high-interest cash loans we borrowed in 1978 for importing complete sets of equipment. We are now mainly using intermediate-term and medium- and low-interest loans and absorbing direct foreign investments. Our annual debt repayments only account for a very small percentage of our foreign exchange earnings, much lower than the 20 percent which is a safe ratio recognized by all countries. Therefore, there is no risk involved as far as debt repayment is concerned.

Question: Will the utilization of foreign funds result in control by foreign countries?

Answer: We are utilizing foreign funds on the condition that we exercise our socialist state sovereignty. Foreign investors are subject to our law and are, therefore, under our control. The old China which was economically controlled by imperialists is gone forever.

12302

CSO: 4006/313

001101Z LEADE

#### NPC REPORTS ON OVERSEAS CHINESE DONATIONS

06/02/85 Beijing in Mandarin to Southeast Asia and South Pacific 0900 GMT 20 Mar 85

[text] In the middle of March the Fourth Session of the Sixth NPC Standing Committee adopted a report submitted by the NPC Overseas Chinese Committee on the results of the examination of proposals. The report encourages Overseas Chinese and Hong Kong and Macao compatriots to contribute funds to their home towns for public welfare undertakings.

The report says: The measures to give preferential treatment to, and reward, Overseas Chinese and Hong Kong and Macao compatriots who contribute funds for building public welfare projects, put forward by Yi Meihoua and other deputies, are conducive to carrying forward the fine traditions of the Overseas Chinese and Hong Kong and Macao compatriots in loving the country and their home towns, and are conducive to promoting construction in the home towns of Overseas Chinese.

Since the founding of the People's Republic of China, the State Council has issued a series of instructions and regulations concerning protection and preferential treatment of the contributions by Overseas Chinese and Hong Kong and Macao compatriots. These regulations that govern the establishment of schools with funds contributed by Overseas Chinese, promulgated in 1957, still remain in force. Two relevant circulars are being implemented. They are the circular issued by the State Council on 17 August 1982 on improving the management of import materials donated by Overseas Chinese and Hong Kong and Macao compatriots; and the supplementary circular issued by the Overseas Chinese Affairs Office, the General Administration of Customs, the State Foreign Exchange Administration of the State Council, and the Bank of China on 4 July 1983 implementing the circular on improving the management of import materials donated by Overseas Chinese and Hong Kong and Macao compatriots. These instructions and regulations have basically solved the problems posed in the proposals.

However, considering the need for building socialist material and spiritual civilization in the home towns of Overseas Chinese, we should encourage and guide the use of funds contributed by Overseas Chinese and Hong Kong and Macao compatriots, primarily in developing industrial and agricultural production and education in the home towns of Overseas Chinese. We should further relax

restrictions in existing regulations governing the management of import materials donated by Overseas Chinese and Hong Kong and Macao compatriots in order to encourage such donations. Appropriate power or decision should be given to schools built with funds contributed by Overseas Chinese and Hong Kong and Macao compatriots.

CSO: 40067387



## FOREIGN TRADE

### BRIEFS

**GUANGDONG IMPORTS ADVANCED TECHNOLOGY**--With the assistance of Overseas Chinese and Hong Kong and Macao compatriots, Guangdong Province has imported advanced technology and advanced equipment to speed up the development of the province's electronics industry. Last year, in gross electronics industrial output value and profits made, the province ranked fourth in 28 provinces and municipalities in the whole country. The province comes only after to Shanghai, Jiangsu and Beijing. The province has over 15 million Overseas Chinese and Hong Kong and Macao compatriots. Through them, the province has imported foreign capital and capital of Overseas Chinese, totaling some \$20 million, and has also imported a large amount of advanced equipment. [Summary] [HK291454 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 18 Mar 84]

**JIANGSU FOREIGN ECONOMIC, TRADE SOCIETY**--The Jiangsu Provincial International Economic and Trade Society was inaugurated, and held its first meeting of board directors, today in Nanjing. Experts, scholars and professors attending the meeting, as well as theoretical and practical workers on the foreign economic and trade front of our province unanimously hold that strengthening the study of theoretical and practical problems in the sphere of international economy and trade will play a significant role in raising the theoretical, policy, vocational and management levels of our province's foreign trade, developing foreign trade in our province and strengthening the construction of the four modernizations. The meeting elected You Xu, acting director of the Jiangsu Provincial Foreign Economic and Trade Department, chairman of the society. Lin Hegeng, Jin Xun and Zhang Xuwu were elected honorary chairmen. [Text] [OW270103 Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 24 Mar 84]

**DENG XIAOPING INSCRIPTION RESPONDED TO**--The Shenzhen special zone has implemented, in depth, the spirit of Comrade Deng Xiaoping's inscription and is resolved to build the zone better and faster. Comrade Deng Xiaoping inspected the special zone from 24 to 26 January and wrote an inscription for it. This has encouraged the builders of the special zone and also boosted the confidence of the investors. Foreign businessmen universally held: As far as investors are concerned, we can see still more the splendid prospects for the special zone, and our investment confidence has thus greatly increased. Since the end of February, the zone has signed 86 agreements for importing technology and equipment, involving HK\$280 million, double the figure for the same period last year. The momentum of industrial production in the special zone is also very good. Total output value in January and February was 87 percent more than in the same period last year. [Text] [HK180634 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 18 Mar 84]

SHANDONG TRADE TALKS--The 10-day Shandong Provincial International Economic and Technological Cooperation and Export Trade talks ended in Qingdao City on 18 March. Some 1,000 foreign businessmen and friends participated. Some 30 economic and technological contracts and some 1,000 export contracts were signed. These trade talks have played a part in promoting Shandong Province's economic and technological cooperation and trade with other countries. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 19 Mar 84 SK]

IMPORTING EUROPEAN TECHNOLOGY--JIEFANG RIBAO reports that a Shanghai municipal economic delegation recently visited four European countries, including Sweden, Federal Germany, Switzerland and Denmark. Zhu Zongbao, vice mayor of Shanghai, was leader of the delegation, while Xin Yuanxi, adviser to the Shanghai municipal government, was deputy leader. While visiting these countries, the delegation signed 35 contracts on importing technology, with the total amount of transactions reaching U.S.\$44 million. These contracts include 12 items on importing technology and assembly lines for producing welding electrodes, cameras and canned beer and another 23 items on importing equipment. [Text] [OW160452 Shanghai City Service in Mandarin 2300 GMT 13 Mar 84]

CSO: 4006/389

## LABOR AND WAGES

### BRIEFS

LIAONING URBAN EMPLOYMENT--Liaoning Province made job arrangements for 412,405 urban jobless people in 1983, overfulfilling the annual quota by 37.5 percent. The province plans to arrange jobs for 300,000 people this year. [Excerpts]  
[Shenyang LIAONING RIBAO in Chinese 29 Feb 84 p 1 SK]

CSO: 4006/390

## GENERAL

### JINGJI GUANLI ON COLLECTIVE ENTERPRISES, ECONOMY

HK290722 Beijing JINGJI GUANLI in Chinese No 2, 5 Feb 84 pp 29-32

[Article by Chen Gu [7115 6253]: "Stop the Appropriation of the Assets of the Collective Enterprises and Protect the Legitimate Rights and Interests of the Collective Economy"]

[Text] The collective economy is an important part of the national economic system in China. Therefore, it is an important policy of the party and state to consolidate and develop the collective economy, as well as an important measure for the realization of the four modernizations. But for quite a long period in the past, the situation has been very serious in which the ownership of assets and decisionmaking power of the collective economy was subjected to infringement. And this situation so far has not been effectively stopped. Even today, a number of regions have spared no effort to appropriate the assets of the collective by resorting to various pretexts. Consequently, the stability and development of the collective economy have been seriously hampered. Therefore, it has become a pressing problem in developing the collective economy at the present stage to take strong measures to stop the appropriation of the assets of the collective and protect the ownership of the assets of the collective organizations.

#### I

In China today, there are two basic forms of socialist public ownership, and they are ownership by the people and collective ownership. Although these two forms of ownership have a socialist nature, they are very different from each other and no way can one be confused with the other. In the present stage of the development of history, ownership by the people takes the form of state ownership. It actually means that the means of production are in state control, which is representing the people; the means of production with collective ownership basically represents the results of the accumulation of the collective itself, and the rights to own, use, and control the means of production are held by laborers. Therefore, the organizations of the collective economy are more independent in such areas as production, exchange, and distribution. Any move to infringe upon the independence of these organizations and possess the products and assets of the collective without compensation is in fact an action of appropriating and infringing upon the rights of the collective economy. This action no doubt has violated the principle of the socialist exchange of equal value.



Accordingly, the infringement upon the rights of the collective economy and the appropriation of the assets of the collective can be basically shown in the following

1. Excessive upgrading to squeeze collective enterprises. It has been for many years a major method to "upgrade" the collective enterprises into state enterprises through administrative measures. These measures have been taken in disregard of the situations in the development of productive forces to change ownership, appropriate the assets of the collective, and infringe upon the rights of the collective economy. At the end of the 1950's, all the collective enterprises in cities and towns that were characterized by good business and considerable and better profits were "upgraded" into state enterprises. The factories, machinery, equipment, staff, and funds of these enterprises were all diverted without compensation. Consequently, these enterprises have become subordinates to administration organs. During the 10 turbulent years, the collective economy in cities and towns was appropriated at an unprecedented scale. In Jiangsu Province alone, the number of the enterprises of the second light industrial system that were transferred without compensation totaled more than 2,000, with the value of the assets amounting to 300 million yuan.
2. Diverting the funds of the cooperative undertakings. The cooperative undertaking funds are provided by the collective enterprises for use in carrying out mutual cooperation among the enterprises. The principle for using these funds is that these funds are from the collective and to the collective. But because of the defects in the economic management system, it has become a common practice that such funds are diverted by management departments or other departments. Leaders of some departments have often diverted the funds at will by verbal orders or writing notes; some departments have used such cooperative funds to make up for the losses of state enterprises. This practice has resulted in an abnormal situation in which state enterprises are living off of or relying on the collective enterprises. Some places have used cooperative funds in carrying out unnecessary capital construction and in building houses and halls. Some leading cadres have gone so far as to regard the funds as their own and have used the funds for illegal activities, such as buying gifts for presents and debauchery, to create a very bad influence among the masses.
3. Forcibly possessing collective property. It has also become a common occurrence across the country to forcibly possess the property of the collective. During the 10 turbulent years in particular, some departments resorted to various excuses to "borrow" offices, schools and dormitories, and other facilities of collective organizations; some other departments have even bluntly occupied these facilities and they have still not been returned. Similar cases have happened in many places in the process of reforming systems over the past few years. According to reports from various places, some regions have abolished the second light industrial bureaus (handicraft joint cooperatives) in the process of forming economic commissions in a big way and diverted all the assets of the collective into the property of these commissions or other departments. This practice has caused wide dissatisfaction among the collective enterprises and workers who have consequently complained to various leading organs and asked for the return of the property.

4. "Freezing" and "borrowing" collective funds. The collective economic organizations in some big and medium cities have made a certain accumulation through years of effort. But frequently the bank deposits of these organizations are borrowed by the government or frozen by banks. Nominally, these funds belong to the collective but in reality the collective no longer has the right to handle these funds, which in some cases have finally been possessed by others. The socialist planned economy demands that funds must be used in a balanced and planned way. But most of the proper accumulation of the collective economy that has been "frozen" and "borrowed" has been regarded as funds that are raised by localities and used as investment that is excluded in planning. Therefore, this practice not only has failed to use the funds in a comprehensively balanced way but has also seriously damaged comprehensive balance.

5. Appropriation. The collective enterprises have completed their obligation toward state finance when they have paid tax according to law. Therefore, no departments and places have the rights to shift additional burdens on to the collective enterprises. But many regions have resorted to various forms to appropriate expenses, material power, and financial power from the enterprises. Some regions have even implemented their own local policies to oppose the policy of the central government, which stated that making various appropriations against the collective enterprises was not allowed. Specifically, these regions have exercised various forms of exorbitant taxes to add more burdens to the enterprises. It is reported that a company in South China spent 260,000 yuan on nine expense items that included the expenses for building roads and sanitation and hygiene. As a result, although the output value of this company grew in 1981 by 17.4 percent, its profits decreased by 1.6 percent, showing that its economic effect dropped considerably.

## 11

All the measures that infringe upon the rights of the collective enterprises and appropriate their assets have seriously endangered the existence and development of these enterprises.

First, to excessively upgrade the great number of collective enterprises that are considerable in scale and that have made large profits means to deny the features of the ownership of these collective enterprises. As a result, many of the collective enterprises that were formed in the 1950's and that have a good tradition have been centralized. The broad masses of workers have consequently received the "iron rice bowl" and "everybody is eating from the same big pot" but at the same time, the spirit of being concerned with the enterprises and their business no longer exists. And under the influence of "excessive upgrading," the collective enterprises that are not upgraded into state enterprises have consequently lost the features of the collective in such areas as management and distribution. This wrong practice that has violated the objective law that production relations must accord with productive forces, and has seriously affected the initiative of the broad masses of the cadres of the collective enterprises and the stability and development of the collective economy.

Second, the collective enterprises are responsible to a greater extent for the production of daily necessities that are urgently needed by the broad masses of people. Therefore, the development and growth of the collective economy plays an active role in meeting the increasing material needs of the broad masses of people, maintaining the proportionate development of the two big categories of the national economy, and protecting social stability. But the collective enterprises mainly depend on their own self-accumulated funds for development. Therefore, the enormous appropriation of their funds has caused these enterprises to be short of funds. The consequences of the appropriation have been shown in such areas as the collective enterprises not being in a position to expand reproduction according to changes in market demand, and although such enterprises have been set up for many years, they are still characterized by backward equipment and technology, low economic effects, single production variety, decreasing quality, and a shortage of small commodities. Consequently, they have not been able to display their due roles in developing the national economy.

Third, compared with state enterprises, the quality of the workers of the collective enterprises is low, the technical forces of such enterprises are weak, and their management level is low. These situations are contradictory to the heavy tasks of these enterprises in realizing the four modernizations. Therefore, it has become an urgent task to develop the collective economy by relying on the strength of the economy itself to exploit talented people and to train workers. But as the collective economy in many regions is subject to various forms of appropriation, it is impossible for the collective organizations to resolve such strategic problems.

Fourth, the welfare of the workers of the collective enterprises represents part of workers material interest. The enterprises may flexibly carry out welfare work according to their material conditions and the results of their operation, so that through welfare, these enterprises will be able to raise workers initiative in production, guarantee the physical strength of workers, and promote production. But arbitrary appropriation and various transfers of property have deprived the collective enterprises of their material interests. There is no way the enterprises can rationally show the results of their business. Under this condition, workers' welfare of these enterprises has consequently been affected and can barely make progress. Many collective enterprises can barely maintain normal reproduction because of a serious shortage of funds, let alone improve collective welfare on the basis of the needs of production and life. Some places have even diverted the funds that have been raised by the collective enterprises for constructing workers housing facilities and forming workers retirement funds. Consequently, these places have directly damaged the welfare of the collective enterprises. It is necessary to particularly point out here that compared with state enterprises. The collective enterprises are in an inferior position in such areas as housing facilities, kindergartens, and labor welfare. Measures have not been taken to improve this irrational situation that has existed for a long period. Consequently, this situation has seriously affected the stability of the ranks of workers of collective enterprises and the development of the collective economy.

It can be seen from the above examples that arbitrary infringement upon the legitimate rights of the collective economy and appropriation of the assets of the collective enterprises have seriously endangered the existence and development of the collective economy and enterprises. But it is not enough to regard the appropriation as merely endangering the collective economy. We must understand that appropriation of the assets of the collective enterprises has seriously affected the harmonious development between the collective economy and state economy and consequently has affected the development of the national economy. For example, as the collective enterprises have been subjected to appropriation for many years, the collective economy has made little progress in employment while at the same time, the collective enterprises have blocked the employment of the individual economy. In addition, the state economy is also limited in absorbing labor forces. This situation has resulted in serious unemployment. The situation in which a great many youths are not working is another factor for social instability to be a heavier burden to the national economy. Thanks to the 3d Plenary Session of the 11th CPC Central Committee, the collective economy at last has made new progress to relax unemployment to a great extent. Therefore, it can be seen that it is imperative to closely watch arbitrary infringement upon the legitimate rights of the collective economy. Such practice must be conscientiously dealt with.

### III

Since the appropriation of the collective assets and the infringement upon the rights of the collective economy has caused serious damage, why has such practice happened one after another and why has it not been effectively stopped for many years? The basic reason is the influence of "leftist" ideology. The "theory of transition" was once in a predominant position in China both ideologically and theoretically. Disregarding the history of the present situation of the level of productive forces in China, this theory divided the collective ownership and the ownership by the people into "low grade" and "high grade" and unrealistically stressed the importance of the transition from the low grade to the advanced grade and advocated that the faster the transition the better. Practice proved that the "theory of transition" runs counter to the national conditions of China and to the basic Marxist principle that the relations of production must accord with productive forces. It has caused serious consequences in actual work.

At the present stage, in order to end equalitarianism it is primarily imperative to thoroughly get rid of what is "leftist" and eliminate the influence of the "theory of transition" so as to deepen people's understanding of the need for the long period of the existence of the collective ownership in China. It is imperative for us, under the guidance of Marxist theory, to conscientiously sum up the positive and negative experiences of the development of the collective economy over the past more than 3 decades in the country, and on this basis constantly perfect and develop the related theory of the collective economy to guide our practice so that we will be able to turn this theory into a powerful weapon for stopping the appropriation of the assets of the collective and protecting the legitimate rights of the collective economy.

In addition, the defects of the existing industrial management system have made it impossible to guarantee the ownership of the assets of the collective organizations, and therefore it can be said that these defects have also constituted an important reason for the appropriation of the assets of the collective.

According to the existing industrial management system, the related industrial enterprises are put under the management of the related departments. This system is no doubt necessary to guarantee that the national economy will be able to develop proportionately and in a planned way. But this system also has its own defects. It only stresses the importance of managing the planning of production and neglects the objective needs that the management of the collective ownership should be different from the management of ownership by the people. As collective enterprises are scattered under the management of different departments according to the nature of their different trades, the roles of the original united economic organizations (such as handicraft united cooperatives) of the collective enterprises have consequently been weakened. Therefore, it has been difficult for the departments concerned to carry out management and centralization. In some places, the management departments of the collective enterprises have even been abolished. What is more important, the state does not have a specialized organ for unified study and to define the principles and policies for the collective economy. As a result, industrial management departments cannot but frequently [word indistinct] to the same management method in managing both state enterprises and collective enterprises to neglect the decisionmaking powers of the collective economic organizations and the difference in the management of the collective enterprises and state enterprises. Consequently, it is the state management departments which are exercising the right to own the assets, distribute profits, and direct the production of the collective enterprises. There is no distinction between the collective economy and the economy of the people, while the collective enterprises have gradually lost their unique features to become subordinates to the management departments. As this situation continues, comrades of certain management departments have consequently formed the habit of regarding their responsibility for the management of the collective enterprises as their right to arbitrarily arrange the assets of the collective.

In order to stop the appropriation of the assets of the collective enterprises and protect the ownership of the assets of the collective economic organizations, it is necessary to first understand that the socialist country belongs to the workers. At the same time, the state management departments must represent not only the interest of the workers of the enterprises with ownership by the people, but also the interest of the workers of the collective enterprises. For these departments, it is not enough just to bear responsibility for managing the production of the collective enterprises; that is, they must also protect and support the collective economy. On the other hand, it is imperative to reform the current economic management system so as to overcome the defects of this system. An urgent task at present is to sum up the historical experiences of the handicraft-united cooperatives that were formed in the 1950's, combine these experiences with the specific conditions of today, and restore and establish the united economic organizations of the collective enterprises at various levels so as to meet the objective needs of the development of the collective economy. The practice taken over the previous period to restore the handicraft united cooperatives of the collective enterprises of the second light industry showed that the rehabilitation of the united cooperatives has played an active role in protecting the ownership of the assets of the collective enterprises and in coordinating the mutual relations between the collective economic organizations and the state.



Second, as a result of the appropriation of the assets of the collective enterprises, the dissemination and implementation of the principle and policies of the central government for the collective economy have not been carried out well. The central government has all along paid a lot of attention to the consolidation and development of the collective economy. Last year, the State Council issued "provisional rules and regulations on certain policies of the economy with the collective ownership in cities and towns" to explicitly define such areas as protecting the ownership of the assets of the collective economic organizations and protecting the legitimate rights of these organizations. These rules and regulations are very important for the consolidation and development of the collective economy at present and during a certain period in the future. But some regions and departments have not paid enough attention to disseminating the implementing of the principles and policies of the CPC Central Committee and the State Council. Some have opposed these principles and policies and others have even defined their own "indigenous policies" that are in contradiction to the principles and policies of the central government. As a result, some regions and departments have one after another appropriated the assets of the collective.

In order to overcome the appropriation of the assets of the collective, it is imperative to carry out dissemination work. The governments at various levels and the collective economic organizations must resort to such media as newspapers, magazines, and circulars to disseminate the party principles and policies for the collective economy so as to make people understand that to develop the economy with collective ownership is a protracted and important policy of the party and state and not an expedient measure. The aim of this policy is to protect the legitimate rights of the collective economic organizations and to actively encourage and support the development of these organizations. We must do a good job of implementing the policy for the collective economy. All regions and departments across the country must work according to the spirit of the CPC Central Committee and the State Council and resolutely correct the appropriation of the collective assets, while the assets that have been appropriated must be conscientiously handled and refunded.

In addition, the legal system in China has been imperfect for a long time. Without legitimate backing, there has been no perfect legal protection for the assets of the collective and the appropriation of the assets of the collective has not been subject to legal punishment. All these problems have affected the development of the collective economy. Therefore, to strengthen economic legislation so as to provide legitimacy and to punish those who are violating the law also represents an important means for effectively protecting the ownership of the assets of the collective economic organizations and the rights of these organizations.

Infringement upon the legitimate rights of the collective economy and appropriation of the assets of the collective represent a historical problem as well as a present-day problem. Therefore, this problem cannot be resolved easily. It is necessary for us to resolutely implement the principles and policies of the party and eradicate "leftist" influence in such areas as theory, system, policies, and laws before we are able to overcome the appropriation of the assets of the collective and make the collective economy constantly develop.

# TAIWAN SEES AT-3 JET COMPETING IN WORLD MARKET

OW211315 Taipei CHINA POST in English 15 Mar 84 p 12

[Text] The most advanced home-grown jet trainer, named the AT-3, was developed independently by the Chung Shan Institute of Science and Technology, was formally demonstrated at an air force base in central Taiwan yesterday.

The jet trainer, developed to replace the U.S.-made T-33 the ROC [Republic of China] Air Force now uses, is comparable to F-5E in low-altitude performance, researchers at the institute said. A minor modification could turn the trainer into a fighter, they noted.

The institute expects the trainer will be highly competitive in world market because production costs are lower than for foreign planes of the same type. The nation may manufacture the newly-developed jet trainer for export, it revealed.

According to the institute, the AT-3 has two seats and two turbofan engines, each developing (3,500 pounds of thrust). It uses 0.49 lb of fuel per hour, compared with 0.7 lb for the Hawk developed by the United Kingdom.

The AT-3's empty weight is 8,500 lb, with a maximum take-off weight of 16,500 lb, compared with 17,085 lb for the Hawk; will reach Mach 0.85 at 36,000 feet, compared with 0.88 for the Hawk; maximum rate of climb at sea level is 8,000 feet per minute, compared with 9,300 for the Hawk; take-offs and landings require 1,500 feet and 2,000 feet, compared with 1,800 and 1,600 feet for the Hawk; and maximum external load is 5,000 lb, compared with 5,660 lb for the Hawk.

In addition to the British Hawk, the AT-3 is also comparable with the Alpha Jet developed jointly by West Germany and France, the Italian MB-339, and the Spanish CASA-C-101.

In its effort to develop an independent national defense industry, the nation has cooperated with Bell and Northrop companies in the United States to produce UH-KH helicopters and F-5E fighters while developing the AT-3 by itself.

Two prototypes of the AT-3 were completed in July, 1980 and February, 1981 respectively. The first AT-3 left the factory on March 1 this year. Researchers at the aviation research and development center of the Chung Shan Institute revealed the AT-3 is capable of ground attack roles also.

Before successfully developing that AT-3 this year, the nation had developed the PL-1 basic trainer, the I-CH-1 intermediate trainer, and short-distance cargo plane XC-2 independently; all are propeller driven.

Presiding over yesterday's demonstration, Deputy Chief of the General Staff Lt. Gen. Yeh Chang-tung said the successful development of the AT-3 is the result of 15 years of hardwork. He said the ROC is increasingly confident, and will aggressively strive to attain the long-term goal of an independent national defense industry.

CSO: 4020/88

TAIWAN

BRIEFS

NEW BIOTECHNOLOGY RESEARCH CENTER--Taipei, 16 Mar (CNA)--The Development Center for Biotechnology (DCB), biotechnology research and promotion organization, has finally been established, after more than one year of preparations. The major tasks of the development center will be setting up a pharmaceutical plant, preliminarily named Bau Sheng Pharmaceutical Co., to carry out research and development related to the hepatitis B vaccine through technological cooperation with a French company, and setting up biotechnology pilot plant and laboratories to carry out projects for local enterprises, reported an official at the center. Currently four government-run firms Taiwan Power Company, Chinese Petroleum Corp., Taiwan Sugar Corp. (TSC) and Taiwan Tobacco and Wine Monopoly Bureau are reportedly planning to seek the services of the center for development of advanced technology and new products. [Excerpts] [OW161303 Taipei CNA in English 0342 GMT 16 Mar 84 OW]

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25 APRIL 1984